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handbook for community economic development

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HANDBOOK
FOR
COMMUNITY ECONOMIC DEVELOPMENT

Syyed T. Mahmood and Amit K. Ghosh
Editors

COMMUNITY RESEARCH GROUP (CRG)
a Wholly Owned Subsidiary of
The East Los Angeles Community Union (TELACU)

The statements, findings, conclusions, recommendations, and data are solely those of the authors and CRG and do not necessarily reflect the views of any of the Federal agencies cited below.

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Office of Neighborhood Development, HUD

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HANDBOOK

FOR

COMMUNITY ECONOMIC DEVELOPMENT

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FOREWORD

It is clearly evident that in the midst of our Nation's great wealth and technological advances a great many of our citizens live in poverty. Attempts to eradicate pockets of poverty in our urban centers and rural communities have proven intractable. For such neighborhoods and communities with few economic assets, development requires substantial resources to address a broad range of inter-related needs: the creation of jobs with a potential for upward mobility, attraction of capital for business development, attraction of long-term investment for land acquisition and development, manpower training, and vocational educational funds.

Local government's attempts at addressing the complex socio-economic problems of pockets of poverty often have been overshadowed by the general decline of the central city's tax base to suburban areas. As a matter of fact, the President's National Urban Policy Report, August 1978, offered the following as some of the reasons why our urban areas are in trouble:

- In most central cities, the private sector economic base has declined or stagnated. Minority youth unemployment remains more than 30%.

- The central cities are losing population, leaving behind the poor and dependent. Approximately 34 percent of all central city families now depend on some form of public assistance (page 36).

- Because of fiscal pressure, states and localities have reduced expenditures for maintenance of public facilities. This deteriorating infrastructure has contributed to the private sector economic decline and population migration.

- The cities are becoming areas where minorities concentrate due to lack of access to opportunity.

These problems of urban decay, loss of population and jobs and the mounting cost of public services threaten the economic vitality of our cities. Because the complexity and diversity of urban problems escape any one implementable solution, city government alone cannot rebuild the neighborhoods of our cities. Given these realities, it is imperative that as many successful models of implementation as possible be identified and utilized at the local level. This is especially true in dealing with severely deteriorated neighborhoods and pockets of poverty.

Experience over the past fifteen years has shown that many of the most creative and successful approaches to neighborhood revitalization and stabilization have come from neighborhood residents themselves. In case after case, neighborhood residents have come together, formed organizations and partnerships

of various types and confronted their problems collectively. They have demonstrated a capability to integrate and coordinate public and private resources into comprehensive strategies to deal with local issues. Accountability to local residents and their closeness to the particular needs of the community has created pressures for these community-based organizations to maintain a high level of performance.

Although these examples have been isolated and local in character; and, while neighborhood spokesmen recognize the need for organizations to move beyond confrontation into collaborative relationships with local government, the state-of-the-art is limited. Nevertheless, we cannot ignore situations where community residents organize themselves to improve their economic condition through a process of community-based economic development.

There is a tremendous need for building the capacity of community-based economic development organizations to participate and implement economic development solutions which directly impact their neighborhoods. Conversely, there is a need to strengthen the institutional capacity of state and local government to understand the role of community-based economic development as part of a city-wide economic development strategy which addresses urban decay. By maximizing and leveraging the resources of community residents with those of local government, lasting partnerships can be created with the private sector to address the needs of severely deteriorated neighborhoods and pockets of poverty.

It is precisely these needs for capacity building at the neighborhood level, and for understanding at all levels of government for community economic development, which have brought together five federal agencies (Economic Development Administration,EDA; Community Services Administration,CSA; Department of Housing and Urban Development (HUD); Office of Minority Business Enterprise (OMBE); and U.S. Travel Service, to commission this Handbook. A Technical Advisory Committee was formed to ensure that the collective experience of these agencies be reflected in the development of the Handbook. While the success of this effort is yet to be determined, this inter-agency project represents a commitment to jointly address the economic problems of poor communities.

East Los Angeles, California
February, 1979

Celestino M. Beltran
President, CRG

PREFACE

Community economic development is a relatively recent phenomenon. Although there has been a long history of communities banding together to implement projects generally related to economic development, the appearance of a non-profit legal entity devoted to community economic development gained acceptance by the government with the passage of Title I-D of the Economic Opportunity Act of 1964 as amended. It is important to distinguish between community organizations involved in providing social services and those that have explicitly recognized community economic development as their primary goal. This latter group is referred to in this Handbook as a Community Development Organization (CDO), and represents the primary reader.

Community based economic development concentrates on the development of neighborhood community institutions which can enable minority and white low-income groups to pool their resources and talents to create jobs, income, and managerial and ownership opportunities for themselves. It is an attempt to use business methods and organization to provide economic and social benefits to severly distressed neighborhoods and pockets of poverty. Community-based economic development derives from a central organizing principle that community control of the redevelopment process will be more effective in directing the benefits of the process to neighborhood residents. From this principal of community accountability, the overall objectives of this institutional model include:

- The development of business and economic institutions which increase the income of community residents.
- Provision of more and better employment opportunities both inside and outside the community.
- Participation in the ownership and management of such firms and institutions by the residents of communities in which they are located.
- The development of more skilled human and technical resources than are presently available in such communities.
- The development of economic, social, and political institutions which the community can view with pride and which will be responsive to its collective wishes.

Given the relatively short history of institutionalized community economic development, and the vast diversity within it, both in terms of the environment within which it takes place and the goals of the organization, it was difficult to determine what the contents of a Handbook such as this ought to be and how they ought to be organized. The experience in economic development of The East Los Angeles Community Union (TELACU), the parent of Community Research Group (CRG), was considered insufficient. Therefore, six CDOs were visited (names noted in Acknowledgments) across the country. From these visits and informal contacts with other CDOs and the Technical Advisory Committee, it became apparent that there are four types of CDOs with three needs relevant to the Handbook.

CDO TYPES

1. Newly formed community groups with an interest in economic development.

2. Established community groups with experience in social services but now shifting focus to economic development.

3. CDOs with experience in community economic development, but experiencing severe problems.

4. Well-established large CDOs.

While each of these CDO categories shows a different emphasis on what they require from this handbook, these needs can be categorized as:

CDO NEEDS FROM THIS HANDBOOK

1. The need for assistance in planning and implementation of economic development.

2. A survey of technical subjects necessary to plan for and implement economic development at the community level.

3. A compilation of important terminology used in economic development and a summary of major programs relevant to community economic development.

It became apparent that to satisfy all CDO needs the Handbook would become unacceptably long. Thus after at times agonizing efforts, the decision was made to organize the Handbook into three parts with two Appendices.

THE ORGANIZATION OF THE HANDBOOK

Part 1, *Background on Community Economic Development*, has a twofold purpose. The first is to answer questions such as what is community economic development and how does it differ from other forms of sub-national econom-

ic development? The second is to provide the minimum technical information on the workings of an economy and the evolution of community groups from single issue informal organizations in confrontation with local government to multiple-goal formal organizations working with the public and private sectors of the economy.

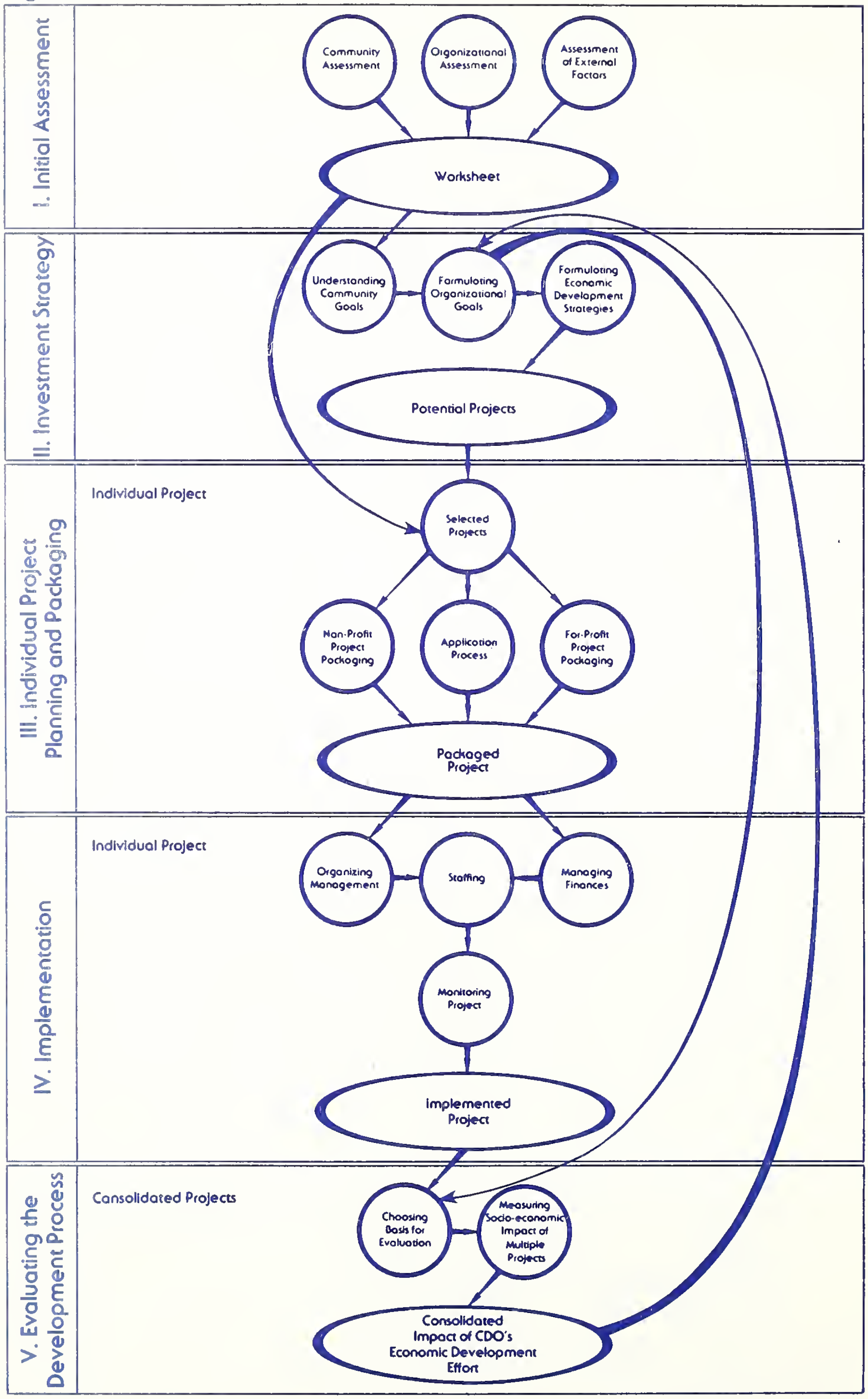
Part 2, *The Development Process*, the heart of the Handbook is organized into five chapters, it takes a hypothetical CDO through the main steps of the development process, from assessing community needs, organizing an investment strategy, implementing a project to evaluating the total effort.

While each of these steps is covered as individual chapters organized in a logical sequence it is fully recognized that in reality one may not have the luxury of proceeding in this manner. At any given time a CDO might be reevaluating its goals, packaging a project, and having a hard time staying in operation.

Figure P.1 presents a bird's eye view of the process and the logical relationships between the chapters. The contents of the five chapters include:

> *Chapter 1 — Initial assessment* assumes that before economic development can begin, a CDO will want to know about important issues in the community, the state of the organization, and understand the state of the larger regional economy and political attitudes toward community economic development. It ends with a worksheet to aid the CDO in posing the right questions — such as, why is our community not participating in the prosperity of the region? — and categorizing the appropriate responses.
>
> *Chapter II — Investment Strategy* takes the worksheet of the previous chapter as a data base for understanding community goals, and uses it to assist in formulating organizational goals and economic development strategies. The chapter concludes with methods for identifying and selecting projects.
>
> *Chapter III — Individual Project Planning and Packaging* shifts to one representative project picked by the CDO under its investment strategy and examines the steps necessary in preparing the project plan, writing the project proposal, and preparing business plans. This distinction between project proposals and business plans is based on the assumption that a CDO works with *both* the public and private sectors and that each have separate needs.
>
> *Chapter IV — Implementation* considers organizing, staffing and directing projects. It ends with a section on monitoring project performance.
>
> *Chapter V — Evaluating the Development Process* identifies important issues in evaluating CDO performance before turning to measuring the economic impact on the community.

Figure P.1


I. Initial Assessment
Community Assessment
Organizational Assessment
Assessment of External Factors
Worksheet
II. Investment Strategy
Understanding Community Goals
Formulating Organizational Goals
Formulating Economic Development Strategies
Potential Projects
III. Individual Project Planning and Packaging
Individual Project
Selected Projects
Non-Profit Project Packaging
Application Process
For-Profit Project Packaging
Packaged Project
IV. Implementation
Individual Project
Organizing Management
Staffing
Managing Finances
Monitoring Project
Implemented Project
V. Evaluating the Development Process
Consolidated Projects
Choosing Basis for Evaluation
Measuring Socio-economic Impact of Multiple Projects
Consolidated Impact of CDO's Economic Development Effort

To keep *Part 2* of manageable length, important supporting material has been left out. Management and organization of the CDO, community involvement, financing, conducting a detailed socio-economic analysis of the community, and project evaluation are of critical importance to any economic development effort. However, each represents an expansive topic and cannot be covered in great depth in this Handbook.

Part 3 covers all this supporting material not covered in *Part 2*, in independent survey articles. The intent is to convey the basics with a bibliography to guide the reader to other sources. In all cases a deliberate effort has been made to emphasize the process *rather* than provide a detailed listing of all possibilities.

The whole Handbook is integrated with numerous cross references between *Part 2* and *Part 3*. Figure P.2 shows how *Part 2* and *3* interrelate with one another.

Throughout the Handbook it has been assumed that complex technical issues can be stated in plain English. When technical vocabulary is used it is defined. There are cases, however, where a reader might find technical words for which he or she may wish to acquire a definition. To allow for this, Appendix A, *A Glossary of Technical Terms* is provided.

Appendix **B** provides the key Federal economic development programs that a CDO will need to know about in order to start the search for projects and funding sources. Chapter VIII provides a general process for finding the full range of possibilities.

THE FORMAT OF THE HANDBOOK

It has been assumed that this Hand book will be updated from time to time, either because ways to improve its contents are suggested or new roads to economic development have been identified. For these reasons, a loose leaf binding has been selected with each chapter having an independent numbering system. In addittion, each selection of the chapter starts with the chapter number so altering of cross-references can be minimized. Thus the second section of Chapter I, *Assessment of the Organization* is simply referred to as Section I.2, and the *Assessment of Current Status* within Section I.2 is referred to as subsection I.2 B.

In *Part 2*, each chapter has a reference diagram to show where it stands in relation to the other chapters of the development process. In *Part 3*, the specific interaction between a chapter and the development process is utilized as a reference diagram. Each chapter starts with a summary and a short explanation of how it can be useful to the CDO.

HOW THE HANDBOOK IS USEFUL

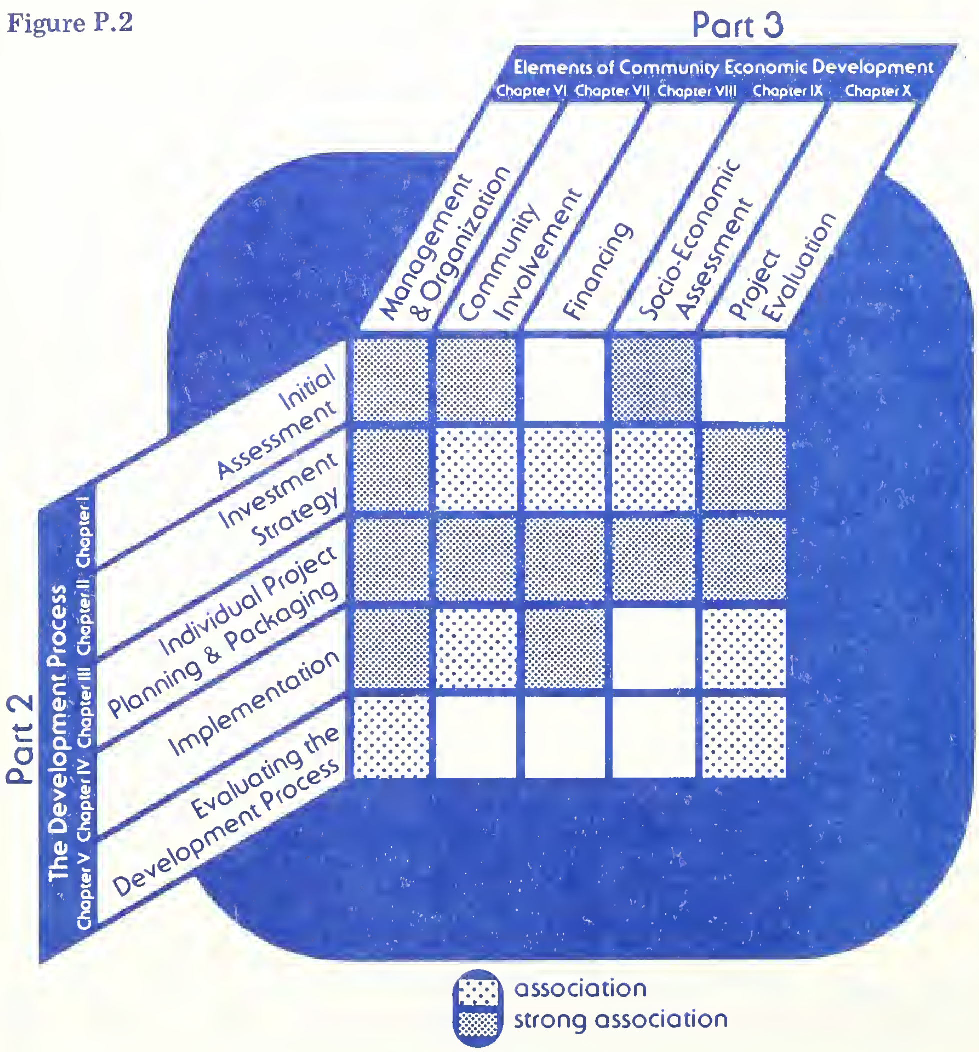
As indicated, there are four types of CDOs that represent potential clients for this Handbook. While it can be usefel to all, special emphasis has been placed on the needs of the community organization which, with a prior record of

providing social services, is now moving into economic development. This type of CDO should find all aspects of this Handbook useful. Even more experienced CDOs will find chapters such as I, III, VII, and IX useful. The checklists and ideas presented there are a ready source for improving existing procedures.

The Handbook has also been designed as a textbook for training CDOs through seminars. Each chapter could have a one day seminar built around it with other material providing further depth and case studies.

It should be emphasized that this Handbook is no guarantee of success. The ability to implement *successful* community economic development is dependent both on the larger environment and the CDO's own enterprise and organization.

Figure P.2



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The most important guidance on the project was provided by the Technical Advisory Committee (TAC), comprised of representatives of each federal agency that contributed funds toward the Handbook. Committee members included:

Paul Braden, Division of Economic Research, EDA
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Jill Gross, Office of Minority Business Enterprise (OMBE)
Bob Hoffman, Office of Neighborhood Development, HUD
Joanne Sheehy, Office of Special Projects, EDA

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Six Community Development Organizations (CDOs) were visited by the staff in an effort to gain better familiarity with the needs of the clients of the Handbook. Their executive director and others freely offered their precious time to aid the staff of the project gain an insight into CDO needs. The CDOs included:

Adopt-a-Building, New York, N.Y.
Bluegrass Economic Development District, Lexington, Ky.
Chinatown Planning Council, New York, N.Y.
Kentucky Highlands Investment Corporation, London, Ky.
South East Community Organization, Baltimore, Md.
Union Sarah, Economic Development Corporation, Saint Louis, Mo.

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Robert M. Sparks

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APPENDICES

Appendix A: Glossary of Technical Terms
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Economic Practices Manual, State of California, Office of Planning & Research

Appendix B: Federal Programs for Community Economic Development
Courtesy of Office of Neighborhood Development, Department of Housing and Urban Development

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PART 1

BACKGROUND ON COMMUNITY

ECONOMIC DEVELOPMENT

PART SUMMARY

This Part has been designed to provide a basic technical background for the rest of the Handbook. It is divided into three sections:

1.1 What is community economic development and how does it differ from other forms of economic development?

1.2 A brief description and framework of the community economy and issues in economic development

1.3 The evolution of Community Development Organizations (CDOs) over time.

While CDOs no doubt know why they exist, it is important to understand their role in the larger socio-economic system and the advantages and disadvantages this provides them. In particular we know that cities and regional bodies also attempt to implement economic development, yet what is different when a non-profit community group tries to do it?

At the same time, before a CDO can attempt to plan for and implement community economic development a basic knowledge of the economy is essential. Even when this knowledge is not explicitly utilized, it provides useful insights into investment decisions.

The last section of this part considers important structural changes which occur in the evolution of community organizations from informal confrontation community groups devoted to a single issue to formal organizations pursuing multiple goals and working with the private and public sector.

1.1 WHAT IS COMMUNITY ECONOMIC DEVELOPMENT?

Ideally economic development should be related and measured by some standard of quality of life. Quality of life then would not only include the ability to buy more or better quality material goods but also express a concern for work conditions, health and the allied concern for environmental degradation, and perhaps most important of all, the ability to shape one's future.

Dealing with these concerns is so difficult both conceptually and practically, that we often fall back on the view that economic development means to provide jobs and increase the ability of individuals to earn more income.

This working definition of economic development would imply that almost everyone should be for it. Consequently, all levels of government attempt to implement economic development in some form. But what is different about community economic development? Three conditions have to be met for community economic development.

1. *A community in terms of a geographic area and some or all the residents in it.* We may, for example, be only interested in the low income residents or the Samoan minority rather than everyone living there.

2. *A non-profit corporation, a Community Development Organization (CDO), with the explicit goal of fostering economic development within the community.* This corporation works with both the public and private sector to invest in the community and create economic development opportunities besides providing human services. Often these development initiatives involve the creation of new for-profit businesses in the comunity.

3. *Some form of control by the community.* Usually this control is exercised through a board of directors at least partially selected from the community.

While government efforts at economic development have the same objective in terms of creating jobs and increased income, they only differ in the modes of implementation. An implementation process that takes the policy mandates and provides a mechanism to consolidate public and private resources to create jobs and income for community needs.

During the 1960s a large number of economic development programs were attempted by the federal government to provide jobs and income for pockets of poverty in inner city areas. As the President's National Urban Policy Report suggests, these programs have at best been marginally successful. Programs that relied on direct transfer payments have tended to be far more successful in reducing poverty.

While it is not easy to provide ready answers to the problems of national policy aimed at inner city poor communities, it is clear that at least two conditions have to be met to insure success:

- A set of well thought-out national and local policies to provide a clear cut direction for economic development at the community level.

- An implementation process that takes the policy mandates and provides a mechanism to consolidate public and private resources to create jobs and income for community needs.

Policy development at the national level requires a committment by the legislative and executive branches of the government and an understanding of the limited knowledge of the working of a complex socio-economic system such as ours. These limits in turn, and detailed knowledge of local

conditions, constrain the abilities of the federal government to determine the appropriate set of economic development policies that meet the unique needs of each area.

Implementation, on the other hand, requires a coordination among different government agencies, between federal, state and local governments, and between all of these and the private sector. This is a formidable task, and as one astute implementation theorist has observed:

> It is hard enough to design public policies and programs that look good on paper. It is harder still to formulate them in words and slogans that resonate pleasingly in the ears of political leaders and the constituencies to which they are responsibe. And it is excruciatingly hard to implement them in a way that pleases anyone at all, including the supposed beneficiaries or clients.[o]

When government intervention is understood in this context, we should be impressed with what has been accomplished rather than with what has failed.

In recognition of these problems of implementation, the federal government has attempted to foster community economic development by directly providing incentives and disincentives to both business and inner city residents and by giving money to cities through formula and block grants.

The problem with incentives, positive and negative, is that independant businesses may or may not choose to accept them or, worse still, they may accept them and not produce the results intended by the policy. Bennet Harrison provides two examples of incentives that lead to unsuccessful outcomes.

"At the same time (1967-68), the Department of Labor launched its Special Impact Program (SIP)*. Three firms which moved into the Brooklyn ghettos 'received more than $3.5 million to hire and train 1,200 people for at least six months at low-wage unskilled jobs: at the end of two years all three firms had closed down the ghetto sites and between them had managed to employ only 300 people for more than six months.'† SIP's activities in East Los Angeles were even more disastrous. Five firms received a subsidy of $5 million to locate in the Chicano barrio and employ about 1,600 residents.

"One of the firms moved closer to East Los Angeles than it had been before, three of them located about the same distance away (as before) and one firm took the Labor Department's money and moved farther out. Three of the firms eventually ended up some twenty miles from East Los Angeles."†

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[o] Eugene Bardach, *The Implementation Game,* (Cambridge: The MIT Press, 1977) p.3.

*This SIP is distinct from the Special Impact Program of the Community Services Administration.

† Geoffry Faux, CDCs: *New Hope for the Inner City* (New York: The Twentieth Century Fund, 1971), p.39.

By 1969, according to an evaluation of SIP conducted by the Westinghouse Learning Corporation, two of the companies were in bankruptcy and a third had 'lost interest in the program.'"*

Even cities receiving federal grants for economic development purposes may not utilize them in accord with the policy mandate. Two well known examples are urban renewal and CETA programs.

As Harrison points out:

> In sharp contrast to the theory, urban renewal programs almost invariably reduce the welfare of the poor, who are displaced from the center of the city, find it almost impossible to afford the new housing constructed on the old sites, and — because of racial and class segregation in the non-ghetto housing — find it difficult to obtain housing elsewhere to replace what they have lost. (Harrison, p.144)

In the case of CETA programs, one notices a similar shift in goals from those mandated by the federal government. Cities have tended to utilize CETA programs as a subsidy to the city budget.

An important question one could ask is, Why do government policies get distorted against "pockets of poverty." While there is no ready answer, at least part of this reason is that in a democratic society local government must respond to its majority constituency as a whole. In a city this constituency in cludes both poor and rich areas. To the extent that economic power aids in the acquisition of political power, the economic development policies will be distorted at both the formative state and certainly at the time of implementation.

Thus the community economic development has a number of advantages over other forms of implementing economic development in poor communities.

1. It provides a mechanism for gaining an appreciation for the unqiue conditions of a particular community.
2. It fills an institutional gap by coordinating the activities of the private and public sectors. While working in partnership with city government, a Community Development Organization (CDO) can also take direct action, like the private sector, to construct industrial parks, rehabilitate housing, etc.
3. The dual non-profit, for-profit character of CDOs allows for flexibility of implementation. Thus problems associated with affirmative action, neighborhood agitation against projects can be sharply reduced by working through a CDO. The community is less apt to feel manipulated.
4. It allows for greater participatory democracy in establishg a mechanism for determining the direction of economic development in a community.

*Bennett Harrison, *Urban Economic Development* (Washington, D.C.: The Urban Institute, 1974) p.148.

It is not being suggested that a CDO compete with a city. On the contrary, the city has had the traditional responsibility of providing services and expanding the tax base to improve these services to gain a comparative advantage over other cities. A CDO, while maintaining a more specialized function of economic development, can aid in supplementing the efforts of city government.

1.2 THE WORKING OF A COMMUNITY ECONOMY

A. What is an economy?

From one perspective, community economic development may be viewed as the process which attempts to change th economy of the community to better serve the needs of residents. Thus it is important to understand what is an economy in general and what is the economy of a poor community in particular.

Economics is generally defined as the study of decision-making about the allocation of limited resources to competing ends. This definition hardly seems very inspiring, so consider the purposes of any economic system.These are viewed as:

- What and how much to produce
- How to produce
- For whom to produce

From this point of view, economics becomes of central importance. These questions have to be answered by all human societies be they communist, capitalist or socialist. The major differences among these societies are caused by how they choose to respond to these issues.

In the U.S. we have a mixed economy that attempts to rely on markets for the resolution of these issues, and the government only generally intervenes if either markets do not exist or produce in a manner not deemed in the public interest. Yet what is a market? There is a tendency to consider it as some societal process that is in the natural order of things, but it is incorrect to view markets in this manner because markets on a larger scale often require complex rules that have evolved over centuries.

In its most general sense a market is a process of exchange between two or more individuals. A complete specification of a market, however, would include:

1. Several people or institutions.
2. Some item or service in the possession of each that is of interest to one another.

3. Rules of exchange.

4. Allocation of property rights.

If each person or institution pursues what is best for itself, there will be an inherent conflict between the buyers and sellers of the goods or services. If a person is selling shoes he generally wants the highest price possible for them, while a buyer, on the other hand, wants to pay as little as possible. Thus if there were no other interference they might bargain and arrive at some exchange rate like the two pairs of pants or $30 in exchange for the shoes. Since we are used to using money we call this the price.

The important thing to recognize is that both people are better off for the transaction. The seller of the shoes may complain that he didn't get a high enough price just as the buyer might complain about paying too high a price, but we know they always had the alternative of not carrying out the transaction. If the transactions are large enough, *specialization* results. About two hundred years ago (1776), a Scotsman named Adam Smith wrote what is generally regarded as the greatest single contribution to capitalist economics*, *An Inquiry Into the Nature and Causes of the Wealth of Nations.* In this work, Adam Smith cogently argued that if human beings were allowed to pursue their own selfish interest with little government interference, the economy of the country would run efficiently. In other words, the market economy leads to efficiency in terms of maximum production from the given endowment of resources such as labor, land, capital, etc.

The problem with Adam Smith's view of the world is that even an efficient allocation of resources through the market may not be satisfactory to society as a whole. This gets back to questions of quality of life raised at the beginning of the last section. For example, the U.S. economy, famed for its efficiency, has large sections of cities and rural areas in physical delapidation and with people in abject poverty. While this state of affairs might maximize production, the social costs are too high.

The efficiency of the market economy has also been called into question since the disastrous Great Depression of the 1930s and the recurring business cycle which creates periods of recession, characterized by high unemployment and inflation, and boom, characterized by low unemployment and high inflation. The modern disciples of Adam Smith blame almost everything on the government.

When government is not satisfied with the mechanism of production and distribution through markets, it can do one of a number of things.

> *It can declare the market illegal.* We are all familiar with the illegality of the heroin and the sexual prostitution markets.

*As opposed to communist or socialist economics.

- *It can create a new market.* For instance, roads are built for the population and paid for by travelers through gas taxes and vehicle registration.

- *It can modify the market through legal fiat.* We are familiar with legislation against certain types of business monopoly.

- *It can modify the market through the provision of incentives and disincentives.* For example, cigarettes are taxed more than food items in most places with the hope that people will buy more food and consume less items such as cigarettes and liquor.

All these means of changing the market economy may or may not be feasible. Just because *heroin has been declared illegal* doesn't mean the market isn't thriving. When a new market is created it may lead to other unforseen problems. It is now generally recognized that the road market significantly contributed to the growth of suburbs and to "white flight" from the central city leading to problems of urban decay, etc.

Similarly, laws often have limited ability to change the market. It is easy to pass a law that says in effect, *No Redlining!*, but another matter to make this law work.

Earlier in Part 1.1 we saw how attempts at providing incentives to businesses to move into the inner city have often not been too successful. For the incentive to work the business has to believe that the incentive will lead to greater profit. Even if this expectation of greater profit is there, the owner of the business may enjoy suburbia for personal reasons and not take the incentive, or he may let some other business that is on the verge of bankruptcy take it.

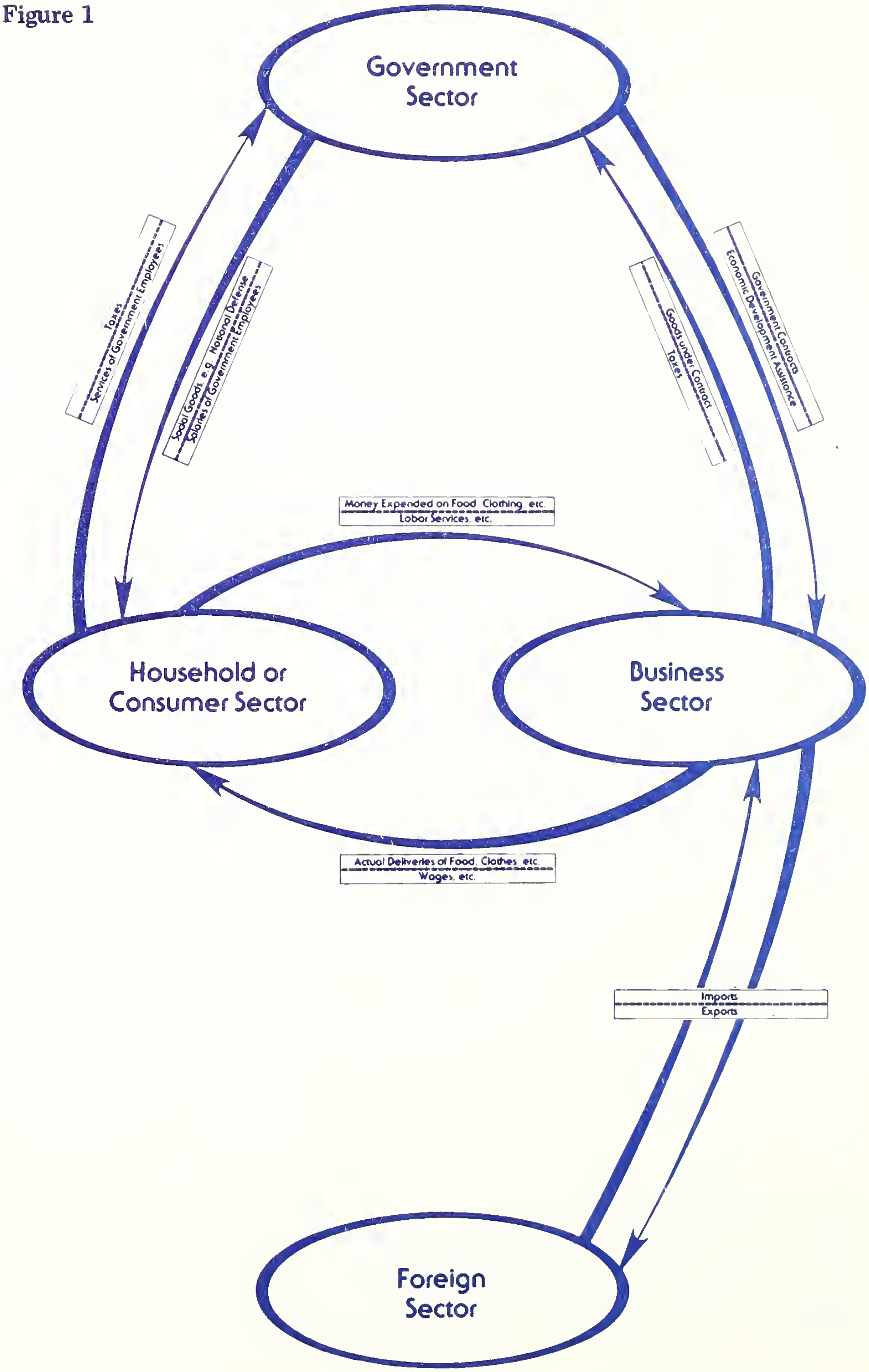
From the perspective of government intervention in the market, community economic development may be viewed as the attempt to modify urban and rural market forces by creating a new market. This market consists of members of the community as the recipients or consumers with the CDO as the institution that sells goods and services (economic development) with support from all levels of government and allied with the private sector.

B. The Framework of an Economy

As Figure 1 shows, any economy can be divided into three sectors, the consumer or household sector, the business sector, and the government sector. It is important to recognize that these sectors represent not a division of people but of economic activity. Thus a business has an owner or owners who are also consumers.

Each sector has markets within it and with other sectors. Businesses trade with each other and they also trade with households. Households or consumers include people who work for businesses and offer their services (represented by the arrow going from households to businesses in Figure 1) and in return they receive income which is represented by the arrow in the reverse direction.

Figure 1



Government Sector
Taxes
Services of Government Employees
Social Goods e.g. National Defense
Salaries of Government Employees
Goods under Contract
Taxes
Government Contracts
Economic Development Assistance
Money Expended on Food, Clothing, etc.
Labor Services, etc.
Household or Consumer Sector
Business Sector
Actual Deliveries of Food, Clothes, etc.
Wages, etc.
Imports
Exports
Foreign Sector

Figure 2

The East Los Angeles Inter-Regional Accounts 1976

Total Annual Sales of E.L.A. Businesses (Region 1)	$466,720,000
Total Annual Local Sales of E.L.A. Businesses (Region 1)	196,390,000
East Los Angeles Annual Exports	
Exports to Southern California (Region 2)	
1. Export of Goods to the Government Sector (L.A. City and County Gvts.)	11,100,000
2. Export of Goods Non-Governmental	210,440,000
3. Total Exports of Goods to Region 2 Southern California (lines 1+2)	221,540,000
4. Export of Labor (E.L.A. residents working outside E.L.A.)	175,620,000
5. *Total E.L.A. Exports to Region 2 (lines 3+4)*	397,160,000
Exports to the Rest of the U.S. (Region 3)	
6. Export of Goods to the Government Sector (Cal State Gvt. and Federal Gvt.)	11,570,000
7. Export of Goods Non-Governmental	37,210,000
8. Export of Labor (E.L.A. residents working in Region 3)	0
9. Total E.L.A. Exports to Region 3 (lines 6+7+8)	48,780,000
10. *Total Annual Exports of E.L.A.* (lines 5+9)	445,940,000
East Los Angeles Annual Imports	
Imports from Southern California (Region 2)	
11. Import of Goods	193,550,000
12. Import of Labor (Residents of Region 2 working, in E.L.A.)	74,820,000
13. Total E.L.A. Imports from Region 2 (lines 11+12)	268,370,000
Imports from the Rest of the U.S. (Region 3)	
14. Import of Goods	58,860,000
15. Import of Labor (Residents of Region 3, working in E.L.A.)	0
16. Total E.L.A. Imports from Region 3 (lines 14+15)	58,860,000
17. *Total Annual Imports of E.L.A.* (lines 13+16)	327,230,000
East Los Angeles Houshold Income	
Total Annual Household Income of E.L.A. (net)	264,890,000
Total Annual Household Consumption of E.L.A.	250,890,000
Total Annual Household Savings	14,000,000
Total Annual Government Payments Received by E.L.A. Households	30,990,000
Total Annual Income Produced In E.L.A.	371,110,000

Similarly when households purchase goods, they do so from businesses (there is a flow in the figure that has those marked) and in return, the money used to pay for the goods flows back to the business.

The government sector is also involved in a market relationship with both the business and household sector. The government collects taxes from businesses and households. In return, it provides such services to consumers as national defense, medical care, sewage, etc., and to businesses — infrastructure such as water, power, etc. Also the government gives contracts to businesses for which it receives goods in exchange for money. It becomes obvious that for the CDO to function meaningfully, it must have a solid understanding of this framework in order to respond usefully and meaningfully to these dynamics.

Figure 1 also shows all the trade with foreign countries being conducted through the business sector. This identifies it as the economy of a country or an isolated region like Hawaii. It is being assumed that there are few or no workers employed outside the country.

At the same time Figure 1 makes no reference to financial institutions. These are treated as any other business that buys raw material (borrowed money at certain interest rates) and sells finished products or service (loans to "credit-worthy" borrowers at higher interest rates).

Another feature of the framework is that it implicitly assumes that all economic activity occurs at one point rather than being spread out over a wide area. This of course excludes the possibility of having income disparities among different places.

C. Characteristics of a Community Economy

If we are interested in a community economy these three points — 1) trade other than through businesses, 2) financial institutions, and 3) spatial effects — become critically important.

Figure 2 shows the economic accounts of an eight square mile inner city area, East Los Angeles, with about 105,000 people. A close reading of the numbers suggests that there are large trade flows across the "borders" of the economy. Not only is a large value of goods being exported (line 1, line 2, line 6 and line 7) but there are large flows of people working outside the community and bringing money in (line 4). Similarly there are numerous people living outside the community who come and work there. In fact, of the 17,150 jobs in the community, only 7,145 (41.7%) were held by local residents. The rest were held by outsiders who took 75 million dollars home.

At the bottom of the figure it can be seen that even though East Los Angeles is a poor community, its residents save $14 million. While hard and fast numbers are not available, it is quite plausible that most of the money deposited in the financial institutions there is loaned out elsewhere. This is traditionally called red-lining. Financial institutions are of such importance in community economic development that Section VIII.2 is devoted to them. There is a lot of rhetoric against red-lining so Section VIII.2 should be read before you

jump on the bandwagon.

One can summarize the characteristics of most community economies of inner city areas as follows:

1. The community has low income, high unemployment and high poverty.

2. There are usually not enough jobs in the community. Note — there might not be anything wrong with this — see Section I.3.

3. Larger community businesses are owned by non-residents. Smaller "Mom and Pop" stores might be locally owned.

4. The education level in terms of years of schooling is low relative to the population as a whole. The skill level may or may not be much higher.

5. Financial institutions tend to invest elsewhere and there might be a net outflow of capital.

6. The community's economy is dependant on the regional economy.

While most of the points are pretty much self-explanatory, the last one would benefit from elaboration. There is a famous 1,2,3 rule in economics. If the national unemployment rate increases 1%, the unemployment rate for women, Blacks, Mexican-Americans and other minorities goes up 2%, and for youths it goes up 3%. Now this is a rule of thumb at the national level, but it emphasizes an important point.

1.3 STAGES OF EVOLUTION OF COMMUNITY DEVELOPMENT ORGANIZATIONS

Community organizations that are involved in economic development go through definite stages of evolution. What is presented is very general and may not apply to all CDOs. Most of them have their roots in the "War on Poverty" during the 1960s. Often a single issue like confronting local government to stop a freeway brings the community together. Over time an organization evolves that begins to consider the delivery of human services for the community. The frustrations involved with dealing with the tip of the iceberg lead community leaders to consider the need to provide jobs and income for community residents, i.e., economic development. They become clients of this Handbook. Usually the first efforts at economic development are unsuccessful and result in the demise of the CDO.

Those CDOs that survive these efforts attempt a wider diversity of projects oriented to both the delivery of human services and economic development. They change as organizations. No longer are they in confrontation with the government and business sector but activily cooperate with both. The dynamics can best be captured by considering changes in:

- Organizational goals

- Organizational structure
- Staff
- Community involvement
- Inter-relationship with other organizations both within and outside the community.

A. Changes in Organizational Goals

There are two types of changes that take place. The first is a change in the goals themselves, while the second involves an increase in the number of goals.

As mentioned earlier, community organization emerges in response to some action by government deemed against the community interest such as the closing of a local health facility or the freeway mentioned above. There is an attempt to provide services such as food stamps, health care, and recreation centers.

Meanwhile, there are also rumblings about, "The local merchants (usually of a different ethnic background) are ripping off the community" or the real health problem is "People are poor and cannot afford proper nutrition, etc." This sparks the desire to start a business that "won't rip off people," or a co-operative that will provide cheaper food. Lacking business acumen and facing the incredible difficulty of starting and running a small business, the effort ends in failure.

If the CDO can hang on it learns from its mistakes and begins to have some modest successes. By capitalizing on them it moves to other projects and finds its ability to run businesses also helps it in running human services better.

It begins to take on bigger projects — moving, for example, from housing rehabilitation to commercial retitalization and perhaps even an industrial park.

B. Changes in Organizational Structure

These qualitative and quantitative changes in goals cause upheavals in the organization. Many of the former "pioneers" of confrontation have deep philosophical misgivings about the changing organizational goals. They fight hard or often leave.

The organizational structure becomes more elaborate when you deal with the diverse goals. Instead of having a program structure like a health clinic, food stamps, etc., divisions are created under non-profit and for-profit wings of the organization. The problem of managing and controlling finances becomes more difficult, and separate departments are created to respond to accountability to government funds. There is a difference in the way things are done. Instead of doing everything in a crisis atmosphere, standard operating procedures become more common.

C. **Changes in Staff**

Initially the CDO must appeal to the "community spirit" to get people. They tend to either be very low paid residents or unpaid volunteers. Over time, however, once the organization can pay better salaries, it has to make the agonizing choice of trying to upgrade local talent versus hiring professionals from outside the community. Usually it results in a compromise of both types of people.

D. **Community Involvement**

When the goals of the CDO involve confrontation, the usual form of community involvement is large public meetings. While these meetings might be chaotic, they serve their purpose.

Once the organization is running businesses and social services on a larger scale, the process of community involvement has to be institutionalized. Often this means the appointment of a board or directors, etc. Some CDOs also select a larger elected Community Board which is elected by the community.

The extent of community involvement in the selection and monitoring of projects greatly varies among different CDOs.

E. **Relationships With Other Organizations Both Within and Outside the Community**

In the beginning, the CDO has differences with other organizations in the community because of differing political philosophies. As the CDO becomes more successful, these differences remain, but are added to by competition for limited government resources.

The most important changes involve businesses and local government. Confrontation is replaced with cooperation for the most part. Some CDOs even have political representatives sit on their board of directors. Others have businesspersons as well.

While the Handbook as a whole has been designed to ease the pains of evolution, particular chapters should be especially helpful. Chapter VI should provide help with management problems, and in the creation of alternate organization structures. Chapter VII should aid in problems of community involvement. The shift to a private business approach, so necessary for some forms of economic development, should not only be aided by Chapter VI but by Chapter VIII as well.

I

INITIAL ASSESSMENT

CHAPTER I

INITIAL ASSESSMENT

CHAPTER SUMMARY

The first chapter of the development process includes a description and analysis of the community, the Community Development Organization, and external factors. This assessment enables formulation of the goals and objectives in Chapter II.

Figure I.0

As Figure I.0 illustrates, the initial focus is divided into three areas of assessment:

I.1 Community

I.2 Organization

I.3 External factors

The insights from this assessment are brought together in a worksheet in Section I.4. Once filled out, this worksheet serves as a basis for determining both the community and organizational goals noted in Chapter II. The worksheet is also utilized in formulating economic development strategies and in individual project packaging.

HOW THE CHAPTER IS USEFUL

This chapter can be useful to your Community Development Organization in two ways. Firstly, it is designed to help you gather information directly necessary for making efficient decisions about the development process. As such it helps you better understand your community, your Community Development Organization's strengths and weaknesses, and the situation in your particular region. This in turn helps you in understanding community goals, and in designing strategies and projects for community economic development in Chapter II.

The second important advantage of the chapter lies in its aid to project packaging. Thus materials from this chapter flow into the first portion of many proposals and project packages you may submit for financing. Potential funding agencies are always impressed when an organization submits well written, logical explanations concerning its community and the larger environment. Similarly, the information you develop for this chapter is a useful starting point when you want to carry out a marketing study for a project.

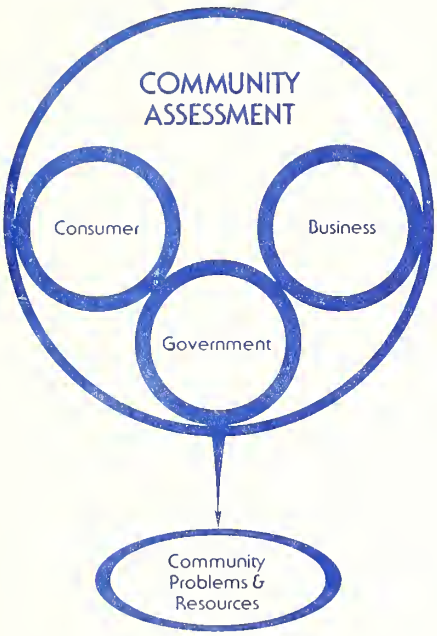
I.1 ASSESSING THE COMMUNITY

Your organization exists to carry out community economic development. To determine what form such development will take, it is necessary to understand the problems and needs of the community.

This section assesses the state of the community in three ways: the household or consumer sector, the business sector, and the government sector (see Figure I.1). This framework, borrowed from economics, is explained in detail in Section IX.1.

If your CDO has been active in the community for any length of time, you probably realize the problems and strengths of the community. You may surprise yourself, however, by going through an organized assessment.
Before discussing the immediate objectives of Community Assessment, it is useful to briefly consider what is meant by community and assessment.

Figure I.1



As indicated in Part 1, a community is a combination of both a geographic area and of some or all people living in it. It is important both for yourself and for potential funding agencies that you have a clear definition of your community. A useful test of this is to get hold of a map and, after precisely locating the physical boundaries of your area, to ask yourself, "Who are we trying to help in this area?"

Your answer cound range from "All the residents of the area" to "The Samoan minority residing within the boundaries on the map" to "The unemployed and low income residents of the area".

The term "assessment" as used here implies both description and analysis. Description requires facts, personal observations, and the opinions of others.
Analysis is a creative act that, at its best, tries to answer questions like, "Why is our community poor?" In rigorous analysis, there is usually some attempt to look for causality. Analysis as covered here is a more simple working tool. Since analyzing something requires a creative act, it is hard to present ready procedures to conduct it. The approach taken here is to present a framework to guide a CDO in asking the right questions and in categorizing the possible answers.

Analysis can also be viewed as the process that converts data into information. Data represents facts and impressions about the world around us. Data should be gathered with a definite objective in mind. It is possible to divide data into three categories, the first two being formal data gathering efforts and the last representing informal means of data gathering.

- Primary data
- Secondary data
- Other data

What distinguishes different types of data primarily depends on who gathers the data and the rigor with which it is gathered. Every bit of data gathered has some purpose or question behind it. If the person asking the question gathers facts, it is primary data. Good examples of this would be a person walking down a street to find out the number of drug stores on a commercial strip, or surveying a community's housing stock to find the percentage of dilapidated units. If, on the other hand, we want to know the number of people

living in a city, or the number of unemployed youth in 1970, we go to the U.S. Census of Population. This data has been gathered by someone else (The Bureau of the Census) and is therefore secondary data.

If one has a clear question in mind, then the data gathered will be useful to decisionmaking and will become important information. Thus if a CDO wanted to find out if there were enough drugstores in a neighborhood because the CDO wanted to start one, the example of primary data would have provided useful information. In other circumstances, however, such information might prove useless. In the absence of a clear cut purpose, organizations tend to mass vast quantities of almost useless data.

So far it has been implicitly assumed that any data gathered is fact, but we all know from experience that this is simply not true. It is useful to presume that all data is to some extent inaccurate, biased and inconsistent. In Chapter IX (Socio-Economic Assessment) these terms are carefully defined; here only examples are provided. Consider the U.S. Census of Population, which is usually regarded as an exemplary piece of data gathering. In 1970 the census undercounted the overall population by 2.5% (5,300,000 people), with a bias against non-whites. Whites were undercounted 1.9% while non-whites were undercounted by 7.7%. Additionally, in California alone, the Bureau of the Census estimated an undercount of 643,000 Spanish surname persons. If the census were to undercount the population by 2.5% every year, it would have been inaccurate by 2.5% but consistent.

In the 'other' category of data are included intuitive judgements, rumors from the grapevine, etc. With these sources of data, personal bias, accuracy and consistency become far greater problems. The specific tastes and interests of persons presenting the data create bias in the interpretation of data. Thus an extremely conservative business-person might come up with a lower figure for unemployment in a community than would someone in community economic development. The conservative might argue, "The people are lazy, they don't want to take the jobs that exist", while someone in community economic development might argue, "Our people want to work, there are just no jobs out there, people get discouraged from looking, unemployment is even higher than the government claims". While these two opposing statements are partly a product of different tastes in philosophy, they are also a product of diverse interests.

At the same time, intuitive judgments, rumors, just walking down the street to see "what's happening" are the main source of data and information for community economic development. After all, economic development concerns human beings, and primary and secondary data serve as an aid to our intuition rather than as a ready formula for success. Chapter VII (Community Involvement) provides further discussion on these forms of data.

Primary and secondary data, however, can help to correct our inherent biases. An excellent example is that of a CDO that tried to incorporate its community into a city but lost the election by a wide margin. It blamed the loss on

scare tactics by the business community. Several years later, however, it received some revenue sharing money to carry out a sophisticated random sample survey and found that more than 60% of the population opposed incorporation. The lesson was, that for whatever reason, community residents had to be convinced that incorporation was to their benefit (if in fact it was).

Thus, there are three objectives for a community assessment:

- Finding out the community's attitude toward community economic development.

- Documenting the state of the community's economy.

- Asking the question, "Why is our community poor?"

Methods for eliciting a response to the first point are covered in detail in Chapter VII, the last two in Chapter IX. Understanding local attitudes toward community economic development is an important element in knowing your community and in determining to what extent community involvement is desirable for CDO planning and implementation. It is assumed that your CDO has been in existence for some time and already has some type of mechanism for community involvement. The important question is whether the quality and amount of community involvement is satisfactory to you.

A major part of community economic development has to be the joint education of the community and the CDO. Through this process, a greater trust in the CDO will develop by the community when it becomes clear that in the long run the CDO will be as healthy as the community will allow. Given the past record of community relations with the powers that be, it may become necessary for the CDO to foster this relationship.

The following questions should help you to understand the important issues in relating with the community:

- How does your community generally perceive your CDO?

- How are your relations with other community groups in the area?

- How far do you actually involve the community in the running of your CDO?

- To what extent do you want to involve the community in your CDO?

- What are the problems perceived by the community?

- What is the power relationship between your community and the political economic system? (Section VII.2 covers this in some detail).

This examination should uncover any discrepancy between community aspirations and CDO performance. Problems will result if the community expects too much or too little from the CDO. If the community expects too little, it

be built through community actions and interrelationships so that the CDO may learn from the community and, in turn, educate it. The following example illustrates the process of adapting CDO goals to community needs.

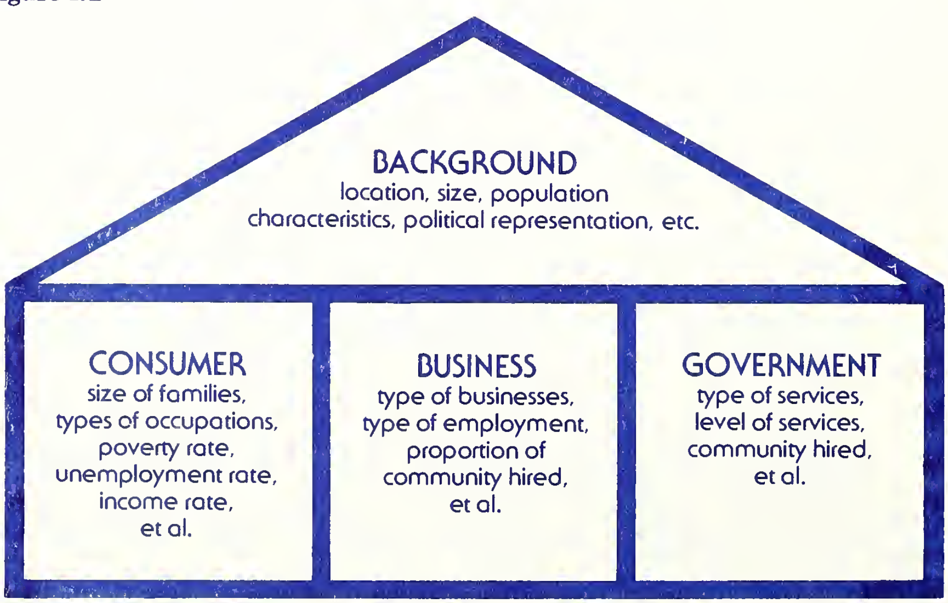
> Twelve businessmen in South Texas came together to form a corporation to aid Chicano small businessmen found their efforts to be in vain because their clients lacked the expertize to utilize their advice. To improve communications and provide a more useful service, the businessmen decided to direct their efforts toward educating their clients in basic business planning and strategy. This way the CDO benefits by learning about its community's needs and they both benefit by the change in service direction.

Now in order to respond to the last two objectives of community assessment, the remainder of this section has been divided into two sub-sections: Describing the community, and inferences about the community. These sub-sections correspond to the definition of assessment as being a combination of description and analysis (drawing inferences requires one to analyze).

A. Describing the Community

Since the primary interest of your organization is community economic development, the appropriate framework for description and analysis relies on the three major classifications of economic activity discussed in Part 1., consumers, businesses and government. A community, however, is more than economic relationships and thus other considerations have to be recognized as well. These are covered as general background. Figure I.2 illustrates the framework and the general data covered under each.

Figure I.2



The subsection presents far more data than is necessary. It is presumed that the CDO will read through the whole chapter and Chapter IX before selecting the types of data it needs to gather. All sources of data are found in Chapter IX. Suggested procedures for carrying out a community assessment are covered in Section I.4.

A good place to begin the description of your community is to consider the historical dynamics that have created your present community. Without getting too carried away with this history, it is sometimes useful to check out your local library and see what material they have about the past concerning changes in the community with regard to ethnicity, income, type of economy (e.g. manufacturing, commercial, service area in the past that is now different). You can add to what you find by looking at trend data from the U.S. Census of Population and comparing it to the surrounding city or county.

There is also room for a *Roots* type approach of talking to people that have lived there a long time. You will get a biased but interesting view of the community.

Moving into the present, take your initial map on which you demarcated the boundaries of the area and fill in the census tract boundaries. If the area boundaries do not coincide with census tract boundaries you will have problems gathering census data, see Chapter IX for assistance.

There is some stable data you should collect for your area. You will need this not only for your own decisionmaking but also for many grant proposals you submit. This data framework is reproduced in the worksheet (Section I.4). While a much larger set of data is possible (see Chapter IX), the basic data includes:

a. Physical Description and General Background

- Location in county and state
- Number of square miles or blocks (depending on the size of the area)
- Type of terrain (ideally on a map or in percentages, e.g. hilly, flat . . .)
- Largest city in close proximity (neglect if you are in one)
- Land use -commercial, industrial, residential, etc.
- Size of population
- Composition of Population
  - age breakdown
  - ethnic breakdown
- Population trends

b. Household or Consumer Sector

- Mean and median income:
  - households and unrelated individuals
  - unrelated individuals only

- Poverty rate for families and unrelated individuals

- Employment status of residents
  - number of employed people
  - number of people unemployed
  - number of people not in labor force
  - unemployment rate

- Occupation breakdown of community residents.
  - Professional, technical, and kindred workers
  - Managers and Administrators except farm
  - Sales workers
  - Clerical and kindred workers
  - Craftsman, foreman and kindred workers
  - Operatives
  - Laborers, except farm
  - Farmers and farm managers
  - Service workers, except private household
  - Private household

- Housing
  - number of units
  - conditions
  - occupancy rate
  - rental value

c. General characteristics of Community Businesses

- Types of businesses in the community and as percentage of total businesses.

  1. Agriculture, forestry and fishing
  2. Mining
  3. Construction
  4. Manufacturing
  5. Transportation, communications, electric, gas and sanitary services
  6. Wholesale trade
  7. Retail trade
  8. Finance, insurance, and real estate
  9. Services
  10. Public administration

- Sales volume by type of businesses

- Employment by type of businesses

d. The Government Sector

- Attitude toward community economic development
  Willing to work with CDOs on economic development projects
  Not willing to work with CDOs.

- Attitude toward human services
  Regards such services as necessary evil
  Commitment to provide services to the poor

- Attitude toward disbursement of Revenue Sharing, CETA and other similar funds
  Willing to disburse funds to CDOs
  Not willing to disburse such monies

- Are community residents satisfied with existing local government services? Why not?
  Lack of money for services
  Shortage of personnel
  Attitude of personnel
  Lack of information in community

B. Inferences About The Community

Now that you know the type of data you might want to collect, the important question is, How can this data be directly useful? In the last sub-section it was pointed out that we need to document the state of the community's economy and pose the question as to the cause of the poverty.

Initially the data, under the household or consumer sector, should provide a picture of the state of economic distress in the community. It is often useful to either compare these figures with another "average" community in the city or to use a larger entity such as the county. It is then easier to infer the extent to which the low income and high unemployment of community residents is a local problem or a regional problem.

Similarly, you should compare these numbers on income and employment over a decade to determine if there is an improvement in or worsening of the economic situation in the community.*

It is also at times misleading to attribute poverty to the absence of jobs within community boundaries. Ours is generally a mobile society and a person's labor market often extends, on the average, to twenty minutes driving often extends, on the average, to twenty minutes driving time by car. Thus, even a prosperious city in California like Beverly Hills, with an average income for families and unrelated individuals of $23,385 in 1970 (and an average *(family* income of $34,483), has most of its jobs located outside the city.

On the other hand, there are large economically depressed rural counties where the largest employers are the public sector organizations such as schools, law courts, the post office and other local government administrative offices. In these instances the absence of jobs in the community is perhaps the major conomic development problem.

The more important question for understanding economic distress in the community is, Why isn't our community fully participating in the economic prosperity of this nation? There are two possible answers for this — either there just is not enough business activity around, or community residents are not being included in it.

If there is a shortage of business activity in the community or the surrounding region, then you should consider three possible sources of the problem:**

- The established capital market does not allocate its funds in an efficient manner in keeping with its goal of profit maximization. This assumes that there are potentially profitable ventures with a high rate of return on capital but lack of information, racial prejudice, or some other reason, prevents the market from allocating investment in the community.

- The capital market is competitive and efficient in allocating capital to areas of highest return. The present economically depressed communities simply do not possess enough profitable opportunities.

*Be sure to consider deflating more current income figures by the Consumer Price Index. See Chapter IX for details.

**Based on Stephan Michelson's article, "On Profit Maximization by SIP Ventures" in *Center for Community Economic Development Newsletter,* June-july, 1977. Also, read Section VIII.2 for a better understanding of the workings of the private capital market.

- The capital market cannot take advantage of opportunities in the community because there are legal, social or size constraints. For instance a real estate firm wants to put together a large parcel of land for development as an industrial park but cannot because of zoning regulations or division of the land in small uneconomic parcels.

Or to consider the problem a little more specifically, is this lack of some particular business activity caused by:

- Problems of entrepreneurship. Was there a failure of someone to have an idea and follow it up into a business entity.
- Finance problems due to hesitancy on the part of the finance market or due to not seeking it from the right institution in the right manner (See Section VIII.3 on this point).
- Problems with finding the right management. (More likely to be found in rural areas).
- Problems of labor. Insufficient skill level. High crime rate.
- Problems of marketing. Not the right product for the market.

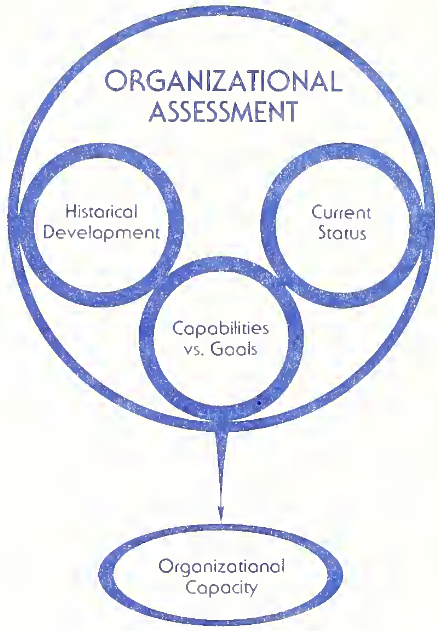
These different problem areas are again picked up in the more general categorization of community problems in Section I.4.

On the other hand, if there is a lot of business activity in the area in the presence of high unemployment in the community, then either there is racial discrimination or community residents are being outbid by workers outside the community. In unincorporated East Los Angeles this fact was brought home from a survey of businesses which revealed that only 41.7% of the jobs in the community were held by community residents. Furthermore, most of the better paying jobs were held by people living outside the community.

I.2 ASSESSMENT OF THE ORGANIZATION

The previous section dealt with analyzing, understanding and formalizing community needs, problems and resources. Through such an assessment you may decide on what needs to be done for the community. What is crucial, however, is what you as a CDO want to do for it, and, more importantly, *actually can do.* If your community is like most other depressed areas there are certainly many things that need to be done. However, if you are like most other CDOs, you may have humble beginnings and limited resources. Your success and effectiveness in the community will depend upon how well you determine your role in the short run and how that role should evolve in the long run. Hence, before you can lay out realistic goals and objectives and work out strategies for achieving them, it is necessary to take a look at what you as an organization are capable of doing in the light of your community needs.

Figure I.3



This section describes a three step process illustrated in Figure I.3, in which an overview is taken of the historical development of your CDO, its current status as an organization, and a comparison of your current goals and objectives in relation to your capabilities.

A. Assessment of Historical Development

In relating the major factors contributing to the creation and establishment of your CDO to its present situation, it is necessary to take an inventory of significant items which shaped the direction of your organization's development.

Naturally, the very first thing to consider is the reason why your CDO was formed in the first place. More likely than not, Your CDO started because some community residents became concerned about a specific situation or conditions in general and got together to do something about it. Interesting questions to have answered are:

- What were the issues that brought people together?
- How do they compare with issues and problems presently perceived by your CDO?
- Who were the people who actively took part and what were their backgrounds?
- Who was the leader and why?
- Is he still in your CDO? Does he still head your CDO?
- What efforts were made to organizae formally? Incorporate?

You can think of similar questions and develop a historical profile of your CDO. List the projects that were implemented and figure out why these, as opposed to other projects, were chosen. What were the major difficulties faced, how were they overcome, and what mistakes were made? How was the overall community disposed towards your CDO's efforts? Was there major opposition, etc.? You can then identify the major events or milestones in your CDO's history that may have brought about shifts in philosophy and direction. Were there changes in leadership, for example? Did you shift from social concerns to economic concerns? What organizational changes took place to accomodate this shift?

B. Assessment of Present Status

From its inception as a small grass roots organization, your CDO has most probably gone through many changes and stages of development to the extent that presently it may be a large organization with many functional or program divisions (see Chapter VI). It may thus require professional expertise to make a valid assessment of your organization, as to management style, organizational emphasis and capacities. You may find it worthwhile to have the assessment done by one of the many consultant firms that specialize in this area. However, the general issues concerning such an assessment may be illustrated by means of three sets of questions about your organization. Using these as examples you may design an appropriate questionnaire for your own CDO and prepare a profile of your activities and capacities. The information you gather on your various organizational units will also help you take stock of the CDO's impact on the community measured against your stated goals. The three sets of questions you might want to have answered are broadly categorized as: General Information; Nature of Activities; and Financial Information.

1. GENERAL INFORMATION

   a. What is the exact name of your division/section?

   b. On the CDO ORGANIZATION CHART please indicate your location by checking the appropriate box.

   c. When was your division/section established?

   d. How many employees are there in your division/section?

   e. How many of these employees live within the community?

   f. Over the last year how many employees did you have to replace/lay-off?

2. NATURE OF ACTIVITY

   a. What do you think is the purpose for which the CDO established your division/section?

b. Under broad descriptive headings, list the different activities your division/section was engaged in over the last year.

c. Which goal or goals, as part of overall CDO goals, is/are being pursued by the activities of your division/section? Explain how this is being done?

d. What do you consider to be the best means of measuring the impact of your activities on the community?

3. FINANCIAL INFORMATION

a. What is the legal status of your division/section? (For-Profit/Non-Profit)

b. What was the source/sources and amount/amounts of your total revenues for every financial year since the inception of your division?

c. How would you allocate your total annual expenditure to the following categories?

a) Gross Wages; b) General, Selling & Administrative; c) Manufactured e) Other

d. What percentage of your total annual expenditure was on the following: (List all activities from your answer to question 2 in nature of Activity Section).

I.3 ASSESSMENT OF EXTERNAL FACTORS

Besides knowing more about your community of your organization you must know about the larger regional environment which to a great extent determines the viability of your community. If the general region around your community is prospering it will be easier for your community to tie into it. By the same token, if the general region is declining then your chances of implementing community economic development will be that much more difficult.

In the same vein, the socio-political factors are going to have an important impact on your ability to develop your community. If your political representatives believe in community economic development, then your job will be that much easier. There are also cases where political representatives have deep philosophical problems with a community group being involved in such activities although it is an open question whether you can change these attitudes. Simply stated you should know who your friends and enemies are.

Case Study: Building Alliances in Barbourville

The Know County Community Development Corporation in Barbourville Kentucky found that only through building community alliances was it able to succeed in its manpower-intensive manufacturing ventures. The

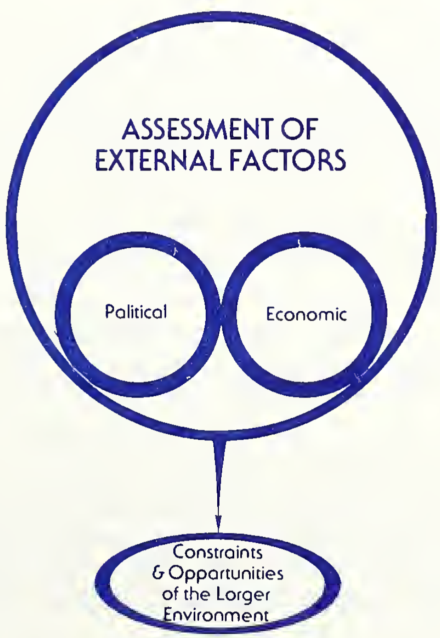
CDO quickly built alliances with local figures such as a school superintendent, newspaper editor and minister. The acceptance by respected community leaders made the operations of the CDO less difficult since their trust filtered into the local community. At first there was initial friction from local businessmen, and particularly manufacturers dealing in the same line of merchandise as the CDO, but this reaction diminished as the local entrepreneurs realized that the CDO would only stimulate the local economy, encouraging employees to spend their earnings in the local business area. Also, the items manufactured by the CDO were limited to specialized materials so that local manufacturers would not be threatened.

Case Study: Community Acceptance through Community Sponsorship

Appalachian Craftsmen, Incorporated, of Huntington, West Virginia, is jointly sponsored by two established and well respected community organizations, the Junior League of Huntington and the Southwestern Community Action Council, Incorporated. As such, it found community acceptance with little difficulty. Success in its various programs has encouraged trust in "outsiders" who often aid in project implementation: however, due to past negative experiences with VISTA volunteers, local residents remained distrustful of such aid organizations.

For these reasons as illustrated in Figure I.4, we have divided up these external factors into two categories: political and economic.

Figure I.4



A. **Framework**

1. POLITICAL

Your ability to perceive economic development aid from the government to a great degree depends on your relationship with your local political representative.

You should take a positive attitude with your representative and work with them under the assumption that they want to know what is happening in their constituency and aid in its improvement.

Keeping this in mind while we are not advocating that you keep a "friends and enemies" list it is important to build up a network of politicians you can rely on for support. Remember you will continually find yourself needing their support in getting projects approved.

We have found that successful CDO's have directors who maintain political networks that are important to the survival and growth of the organization.

Case Study: Epicurean Kitchen and Supporting Networks

> In 1971 Epicurean Kitchen was incorporated as a non-profit organization. Anna Barnett says: "We are unique in being the only self-sustaining vocational training and rehabilitation service of its kind, to our knowledge, in the State of Washington. We have, fortunately, been able to meet our own operating expenses and overhead without benefit of state, county or Federal grants."
>
> Potential trainees are referred to the Epicurean Kitchen by the Divisions of Vocational Rehabilitation and Public Assistance; Institution for the Retarded at Buckley; Washington Association for Retarded Children; Seattle-King County Mental Health — Mental Retardation Board; Council on Aging; Seattle Day Care Centers; Council of the Physically Handicapped; Skil Road Council; Narcotic and Drug Abuse programs; the Physically Handicapped; Corrections Development Project; Job Therapy; Federal, state and County Work Release programs and other agencies.

The interesting question is how does one go about establishing such networks. There are two categories of methods. The first category consists of positive reinforcement while the second category uses negative reinforcement.

Positive reinforcement attempts to convince the politician or bureaucrat that your organizations agendas and his interests are similar. Thus, if you can get a project implemented successfully you will make your political representative look good as actively helping his constituency. A staff in a federal or local agency also looks good if he or she is judiciously managing public resources by helping a CDO that is in fact utilizing the monies as the legislation intended.

Figure I.5

The East Los Angeles Inter-Regional Accounts 1976

Total Annual Sales of E.L.A. Businesses (Region 1)	$466,720,000
Total Annual Local Sales of E.L.A. Businesses (Region 1)	196,390,000
East Los Angeles Annual Exports	
Exports to Southern California (Region 2)	
1. Export of Goods to the Government Sector (L.A. City and County Gvts.)	11,100,000
2. Export of Goods Non-Governmental	210,440,000
3. Total Exports of Goods to Region 2 Southern California (lines 1+2)	221,540,000
4. Export of Labor (E.L.A. residents working outside E.L.A.)	175,620,000
5. *Total E.L.A. Exports to Region 2 (lines 3+4)*	397,160,000
Exports to the Rest of the U.S. (Region 3)	
6. Export of Goods to the Government Sector (Cal State Gvt. and Federal Gvt.)	11,570,000
7. Export of Goods Non-Governmental	37,210,000
8. Export of Labor (E.L.A. residents working in Region 3)	0
9. Total E.L.A. Exports to Region 3 (lines 6+7+8)	48,780,000
10. *Total Annual Exports of E.L.A.* (lines 5+9)	445,940,000
East Los Angeles Annual Imports	
Imports from Southern California (Region 2)	
11. Import of Goods	193,550,000
12. Import of Labor (Residents of Region 2 working, in E.L.A.)	74,820,000
13. Total E.L.A. Imports from Region 2 (lines 11+12)	268,370,000
Imports from the Rest of the U.S. (Region 3)	
14. Import of Goods	58,860,000
15. Import of Labor (Residents of Region 3, working in E.L.A.)	0
16. Total E.L.A. Imports from Region 3 (lines 14+15)	58,860,000
17. *Total Annual Imports of E.L.A.* (lines 13+16)	327,230,000
East Los Angeles Houshold Income	
Total Annual Household Income of E.L.A. (net)	264,890,000
Total Annual Household Consumption of E.L.A.	250,890,000
Total Annual Household Savings	14,000,000
Total Annual Government Payments Received by E.L.A. Households	30,990,000
Total Annual Income Produced In E.L.A.	371,110,000

Negative reinforcement consists of confrontations with political representatives and agency staff members. Generally community organizations are aware of such tactics and they need not be spelled out here. The important thing to keep in mind is that in the long run positive reinforcement works better, though subtle forms of confrontation have their place. Negative reinforcement more often was seen in the seventies and does not seem the way to proceed for todays mature CDOs. Chapter VII, on "Community Involvement," complements these points with a detailed outline of power assessment.

2. Economic

Your community is part of the largest economy in the world. Patterns of growth and recession at the national level influence this community. By the same token your community does not share in the full prosperity of the nation.

Figure I.5, first introduced in Part 1.2, shows the extensive economic linkages for East Los Angeles (E.L.A.) as an example. This table was calculated by using extensive surveys of businesses and consumers in the unincorporated portion of East Los Angeles which was designated Region 1. Region 2 included Southern California excluding Region1. Region 3, consisted of the U.S. excluding Region 2.

The extent of the dollar flows between E.L.A. and Southern California is obviously quite large. For instance, (line 4) E.L.A. residents earned over 175 million dollars by working outside the area. In the other direction (line 12) residents by working in E.L.A. The value of business trade is similarly quite large.

In spite of all these extensive trade flows E.L.A. was a poor community. The unemployment rate was 17.3% and the number of families and unrelated individuals below poverty was 23%.

One reason for this poverty in the midst of prosperity was the low labor force participation in employment centers adjacent to E.L.a. As Figure I.3.3 shows that while 78% of E.L.A. residents work outside the community a low percentage of the active labor force is employed in this industrial belt.

This has important implications for E.L.A. Does it attempt to place more people in these existing employment centers or develop their own employment centers in the community.

Either strategy is dependent on the trends in the employment centers. If the employment centers are stagnating or declining it is going to be very difficult to place E.L.A. residents there as opportunities will be very limited. On the other hand if the area was experiencing a rapid growth rate it might be possible to place more people there.

I.4 WORKSHEET ON INITIAL ASSESSMENT

This worksheet has been designed to aid you in systematically considering the issues raised in the last three sections of the chapter and writing down the answers to them. In order to do this the first component of the worksheet presents categories of basic data on the community, organization, and external factors.

The next component presents the community problems and resources framework. This framework is then used to ask further questions on why your community is in economic distress so that you can better plan your investment strategy in the next chapter.

A. Community Assessment

In Section I.1, four categories were presented to help you in describing the socio-economic conditions. Important data requirements will now be presented under each category. *Please note that potential data sources are explained in Chapter IX.*

1. Physical Description and General Background

In a brief narrative of two pages give the general location, historical background and socio-economic conditions of your area. A good example of this type of narrative is:

"East Los Angeles (ELA), home to 105,000 people, is an unincorporated inner-city community, four and a half miles from the Civic Center in downtown Los Angeles. Since its early settlement in the late nineteenth century its population has changed constantly. East Europeans were followed by Chinese and Japanese immigrants, who gave way gradually to waves of Mexicans in the first quarter of this century. Today, close to 90 percent of the ELA population is Spanish-surnamed.

ELA once encompassed a much larger area than it now does, and it must continually ward off the threat of annexation. Over the past 20 years, as surrounding communities gradually became incorporated, these new cities tried to claim prime residential, commercial, and industrial portions of the ELA area; some succeeded, eroding major revenue-producing industrial portions of ELA and leaving it essentially a corridor community, whose commercial strips and traffic arteries are pathways for commuters through and out of the area. Sections of the famous California freeway network further disrupt the physical and social fabric of the community.

Most of ELA is characterized by relatively flat topography, overlaid by a grid of right-angled streets. Modern stores, shopping malls, and business facilities are noticeably absent. Although nearly one-eighth of ELA is zoned for industrial use, the industrial sectors are underutilized, and the area's large, unskilled labor force must seek employment elsewhere. Recent government estimates placed ELA's unemployment rate at 17.6 percent, double that of

Los Angeles County as a whole. The annual per capita personal income of its residents was barely over $2,000 in 1970. While cities surrounding ELA have thrived, ELA has remained the hole in the doughnut.

Despite its social and economic problems, the community of ELA has played an important role in the metropolitan Los Angeles area -- that of "port of entry" into the city for Spanish-speaking and Spanish-surnamed people. Today it serves as the core of the Spanish subregion that extends over a large area within Los Angeles County. But ELA is nonetheless hampered by a lack of cohesiveness. Few communities anywhere are strong enough to be unified by one organizational structure, particularly when they are faced with the kind and level of political under-representation and social upheaval that has affected ELA, not to mention its economic isolation."*

This kind of brief narrative is extremely useful in starting many proposals. You will find yourself using it over and over again. Note that this narrative covers most of the following list which was recommended in Section I.1.

- Location in county and state
- Number of square miles or blocks (depending on the size of area)
- Type of terrain (ideally on a map or in percentages, e.g. hilly, flat . . .)
- Largest city in close proximity (neglect if you are in one)
- Land use - commercial, industrial, residential, etc.
- Size of population
- Composition of Population
  age breakdown
  ethnic breakdown
- Population trends

In addition you should clearly be able to define your community. It was stated earlier that a community for the purpose of this handbook is both a geographic area and a well defined group of residents (e.g. Chinese minority in the area, all residents of the area etc.). Some federal agencies have required a legal definition of the area as a pre-requisite for funding.

Figures I.6 and I.7 show examples of two maps that visually show geographic location in the larger region (Los Angeles County) and within the subregion. In Figure I.7 it might be necessary at times to put down the streets on the boundaries.

*Taken from a case study on TELACU prepared by the Center for Community Economic Development (CCED).

Figure I.6

regional location of the greater east los angeles special impact area

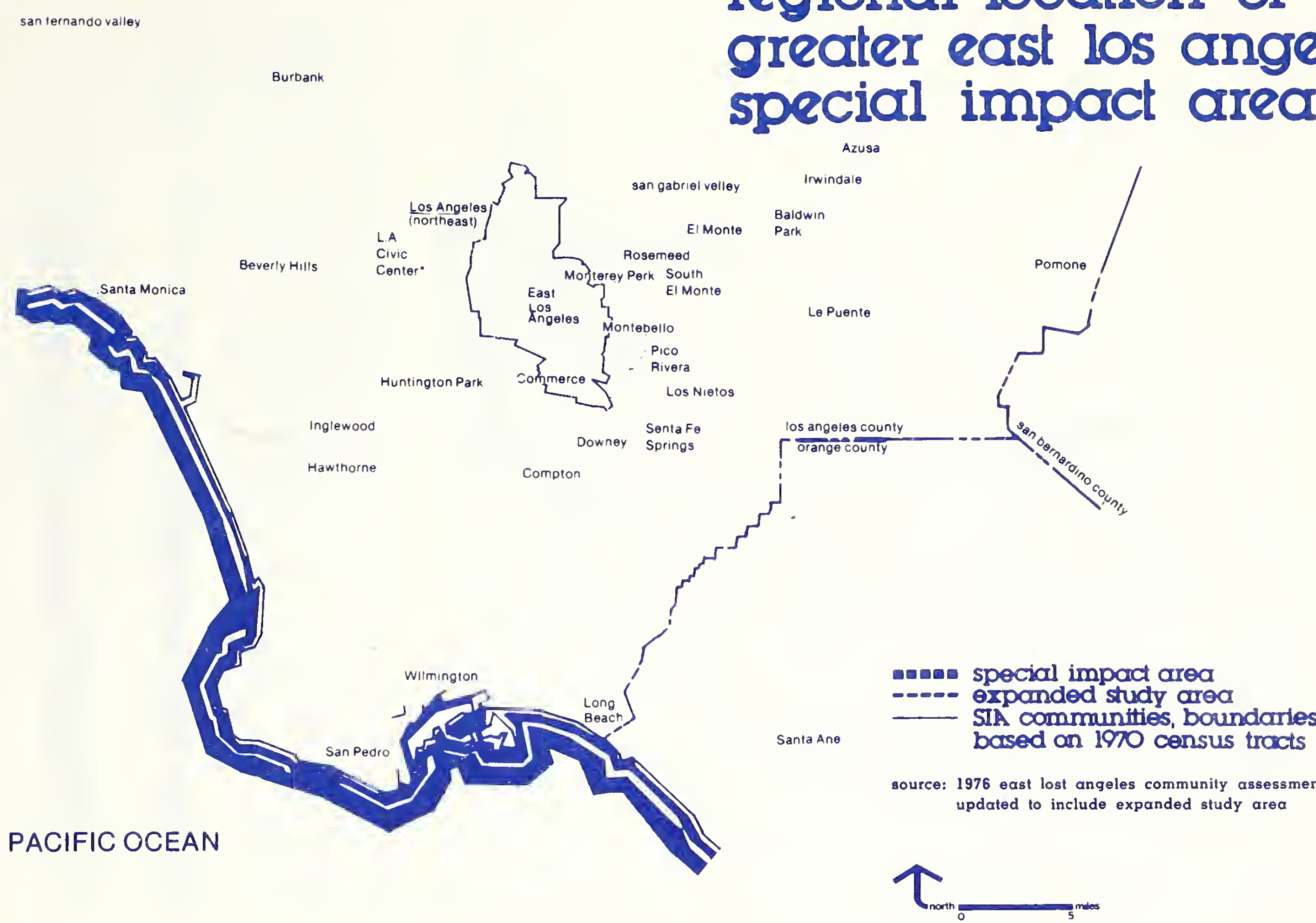
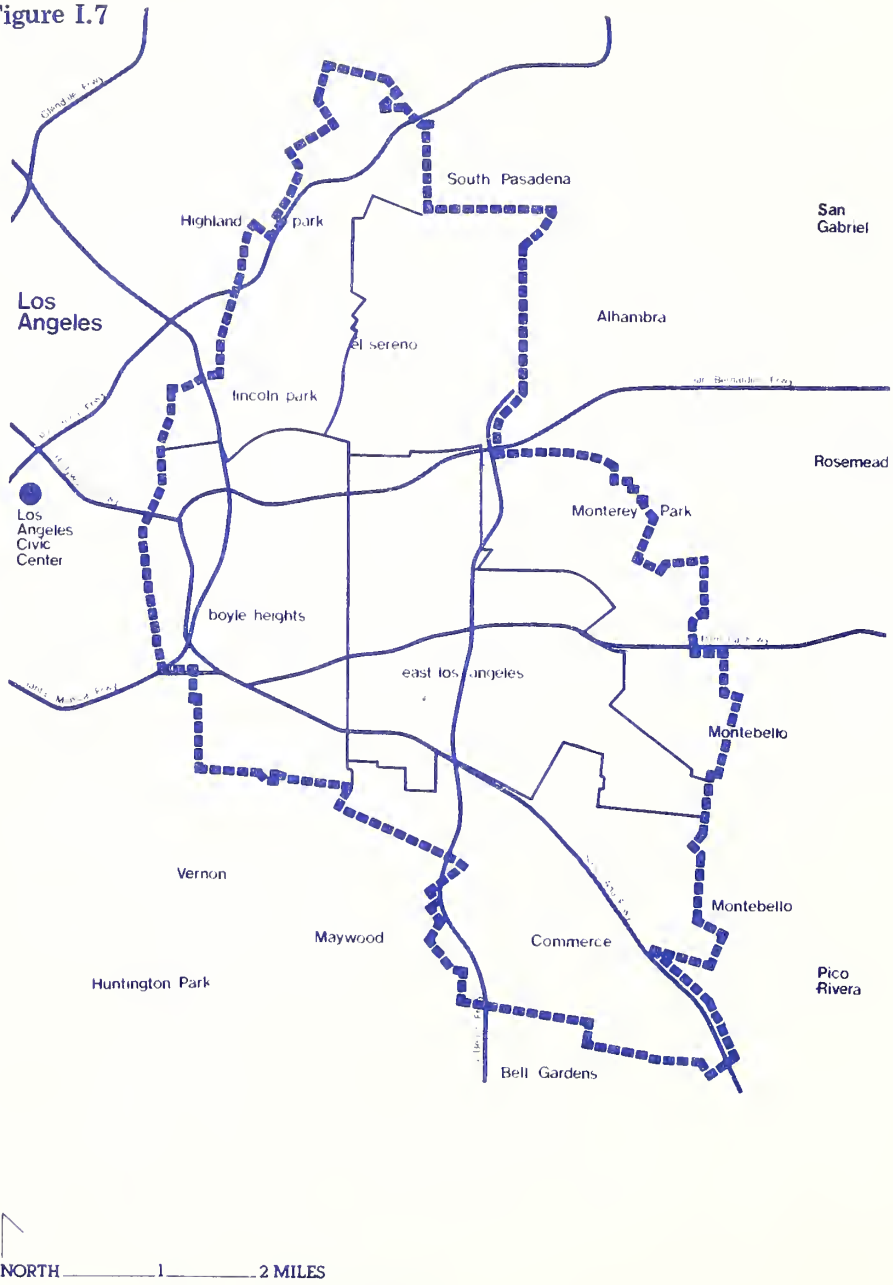


Figure I.7



greater east los angeles

special impact area
SIA communities, boundaries based on 1970 census tracts

Figure I.8 shows an example of a type of land use map that could be useful for some purposes. If your community does not encompass all the residents of the area you might want to use a map to show their distribution over space. In that case you might want to show the changes over time as well.

An important determinant of the success of your effort at community economic development will be the attitude and support of the community. You need to know:

- What are your community's attitudes toward community economic development? Keep in mind that there are a wide range of responses possible. Some communities believe in the rugged individual as the source of economic progress while others at the other extreme associate it with another larger handout from the government.

- How does your community perceive your CDO? Again the community's response may range between under-expectations (eg. "The organization is a rip-off") to gross over-expectations.

- What type of inter-relationship is there between various community groups and your CDO.

Chapter VII presents some useful methods of eliciting responses to these questions.

2. Household or Consumer Sector

As was pointed out in Part 1, the economy of a community may be considered to consist of three sections, the consumers, business, and government sectors. It is important to note that some of the data for these sectors do not mean anything unless one compares them to some other place or people that are considered "average" or the "norm." For instance, if a community claims we had an unemployment rate of 10% in 1975 means little if the country was experiencing a rate of 8.5% at the same time. If your CDO can show "Our unemployment rate of the community was 50% above the national average for the same time period in 1977," it carries more clout. The same goes for income figures.

Before you start collecting data it is useful to sketch a map of your community with the boundaries of census tracts within it. For cases where census tract boundaries overlap the boundaries of your community read Section IX.3 for ways to deal with it. That chapter also presents the sources of data you will need to fill out the worksheet. Most of the data for the household or consumer sector may be found in the U.S. Census of Population.

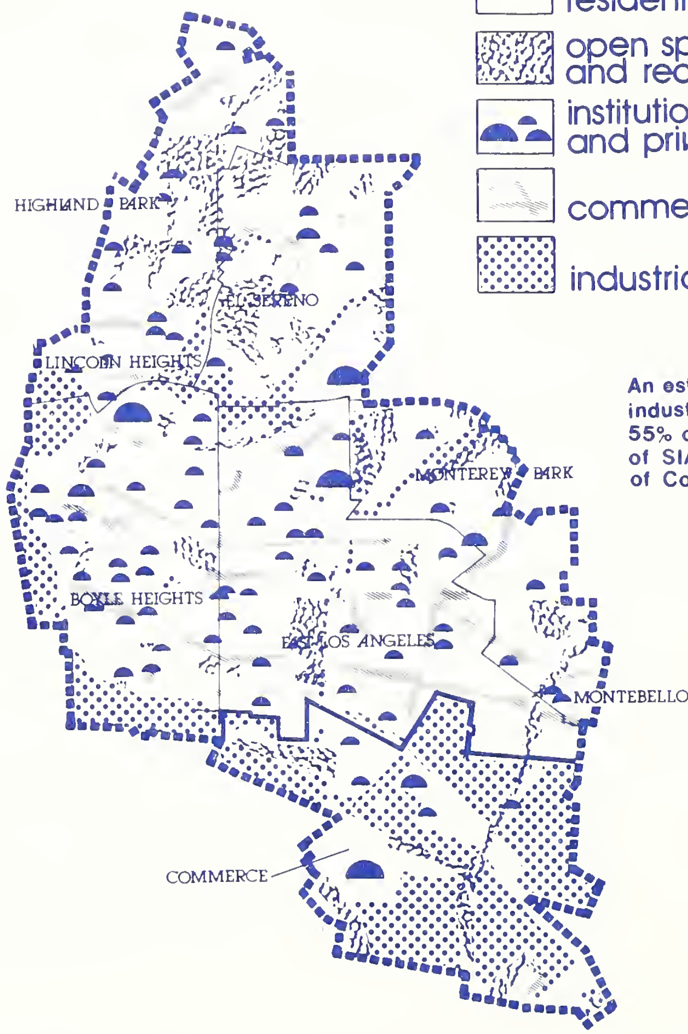
In Section I.1, it was suggested that you collect the following data on the community:

- Mean and median income:
  households and unrelated individuals
  unrelated individuals only

Figure I.8

land use

- residential
- open space, vacant and recreational
- institutional–public and private
- commercial
- industrial



An estimated 80% of total industrial development and 55% of total employment of SIA is within the city of Commerce

NORTH ——— 1 ——— 2 MILES

greater east los angeles

■■■■■ special impact area

——— SIA communities, boundaries based on 1970 census tracts

- Poverty rate for families and unrelated individuals

- Employment status of residents
  number of employed people
  number of people unemployed
  number of people not in labor force
  unemployment rate

- Occupation breakdown of community residents.
  Professional, technical, and kindred workers
  Managers and Administrators except farm
  Sales workers
  Clerical and kindred workers
  Craftsman, foreman and kindred workers
  Operatives
  Laborers, except farm
  Farmers and farm managers
  Service workers, except private household
  Private household

- Housing
  number of units
  conditions
  occupancy rate
  rental value

3. Business Sector

There are a number of ways of displaying this data. One can use tables or maps; Figures I.9 and I.10 provide examples you might find useful. Please note the comparison with Los Angeles County in the maps.

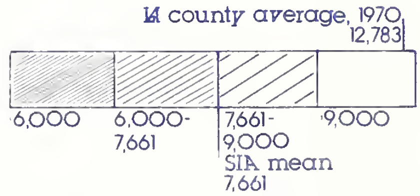
Generally it is harder to collect good data on the business sector of a community. The federal government tends to collect data on a larger scale (there is no direct counterpart to the census tract for businesses). Instead one has to rely on various censuses, such as the Census of Retail Trade, Census of Manufacturing Industries, etc. The basic data includes:

- Types of businesses in the community and as percentage of total businesses.

  1. Agriculture, forestry and fishing
  2. Mining
  3. Construction
  4. Manufacturing
  5. Transportation, communications, electric, gas and sanitary services
  6. Wholesale trade
  7. Retail trade
  8. Finance, insurance, and real estate
  9. Services
  10. Public administration

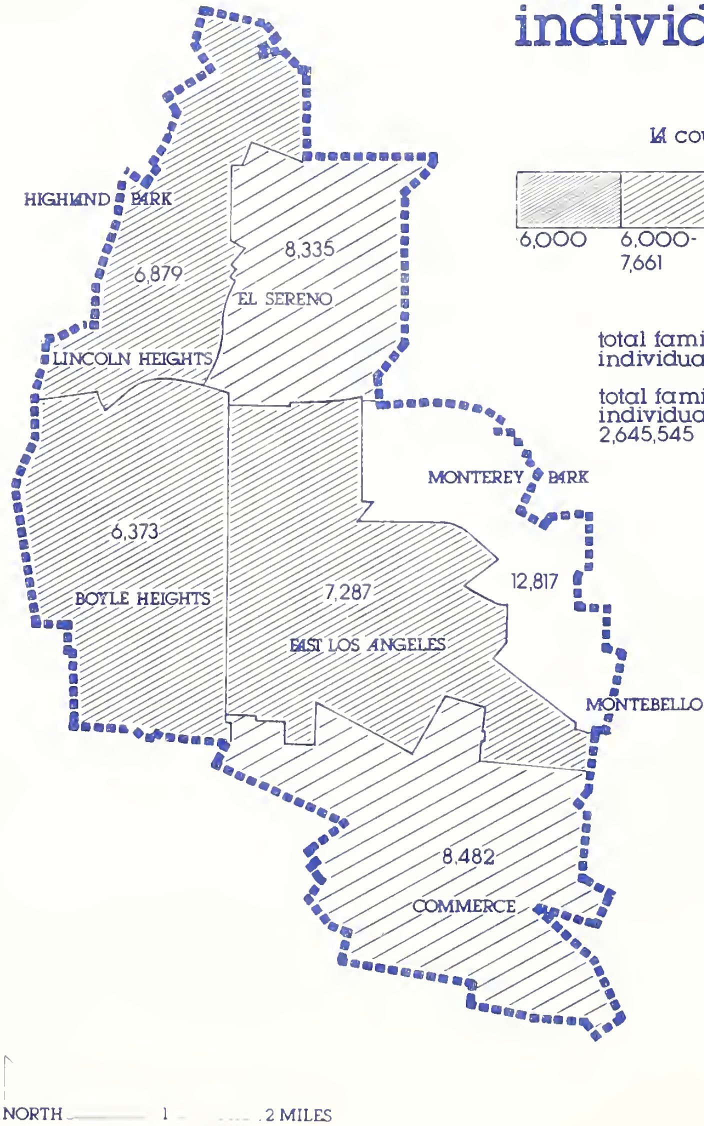
Figure I.9

mean income of families and unrelated individuals, 1970



total families and unrelated individuals in SIA, 1970: 93,492

total families and unrelated individuals in LA county, 1970: 2,645,545

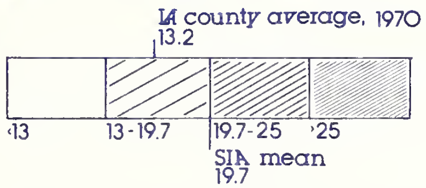


greater east los angeles

▪▪▪▪▪ special impact area
——— SIA communities, boundaries based on 1970 census tracts

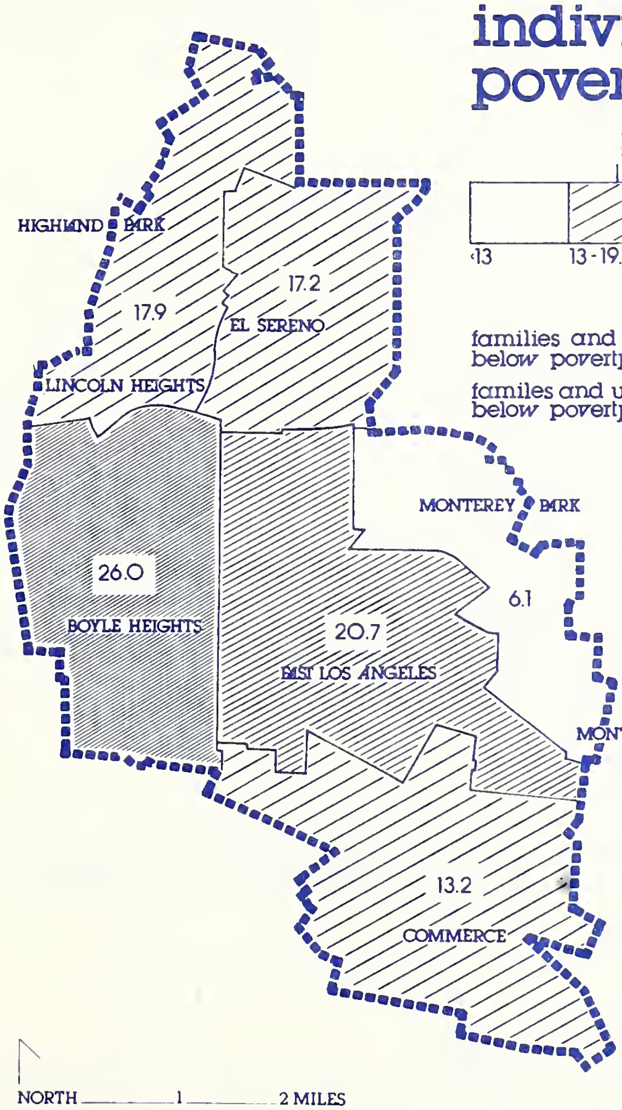
Figure I.10

percentage of families and unrelated individuals below poverty level, 1970



families and unrelated individuals below poverty level in SIA, 1970: 18,413

familes and unrelated individuals below poverty level in LA county, 1970: 350,308



greater east los angeles

■■■■■ special impact area
——— SIA communities, boundaries based on 1970 census tracts

- Sales volume by type of businesses
- Employment by type of businesses

One way of overcoming the data problems if your community is smaller than a city is to put together a yellow pages of businesses for your community. A patient person simply goes through the yellow pages for a larger area and copies down the businesses with an address in the community. Section IX.5 gives other possibilities.

4. GOVERNMENT SECTOR

As pointed out in Section I.1, perhaps the most important aspect of the government sector relevant here concerns its attitudes towards the community and the CDO. Questions that are useful include:

> What is the attitude of your city, township or county government towards community economic development and towards your CDO?
>
> Is your senator or congressman aware of your CDO's existence and is he willing to help you in Washington?
>
> How hard is it getting formula grants such as CETA, Revenue Sharing from your city, township, etc.

There also other things such as the extent and quality of human services offered by local government and fiscal stability which are important as well. If in fact services are adequate but information about them is not widespread in the community, the CDO has an excellent opportunity to be associated with a "Yellow Pages" of essential human services.

B. Organizational Assessment

Here is a brief list of questions for you to answer about your CDO. Answering them should provide some insight into important changes for your organization.

1. Historical Background

a. Issue or reason for initial organizing

____

____

____

____

b. Profile of leaders and original members

Name Description

c. Community Problems as they were perceived then.

d. Projects undertaken

Project Description

e. Stated goals and strategies

Problem	Goal	Strategy

f. Financial Support

Source	Amount
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

g. Important Events or Milestones

Description	Analysis
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

2. Present Status

1. Diagram your organization structure. Figure out what description "program" or "functional" or "Matrix" fits your organization structure best. (see Chapter VI)

2. For each division of your organization, fill in the following.

   a. Name of division

   b. Executive head

   c. Number of employees

   d. Description of function and activities

   e. Total sources of revenues

   f. Total expenditures

3. Prepare a list of all the jobs required to be done in each division.

4. Prepare a list and description of each employee occupying the jobs.

5. Prepare a list of functions that the department is not performing at present but could very easily adopt itself to perform.

3. Goals vs. Capabilities

1. List the problems from community assessment worksheet and match them with different activities of the various organizational division.

Problem	Divisional Activity

C. Assessment of External Factors

As pointed out in Section I.3, there are two elements to this: political and economical.

1. POLITICAL ASSESSMENT

A political assessment can best be carried out by filling out the "Power Map" of Chapter VII. This map should be able to assist you in determining key decisionmakers both inside and outside your community. Once you identify them, make their acquaintance and evaluate their usefulness to your CDO. Find out their views on community economic development and your organization. If you could, categorize them as:

- Extremely supportive
- Supportive
- Neutral
- Negative
- Will fight us on every issue

Then utilize your resources wisely and attempt to positively change the neutrals and the negatives. Do not waste your "silver bullets" on the most negative decisionmakers whether they are politicians or others.

2. REGIONAL ECONOMIC ASSESSMENT

Both in Part 1 and Section I.3 it has been stressed that your community is heavily influenced by national and regional trends. Be aware of them, plan around them, and utilize them. Here are some suggestions:

a. Assign a staff member, among his or her other duties, to keep track of national and regional forecasts of employment, income, housing starts, etc.

b. Find out the main sources of employment in your region and find out what the realtors and planning departments have to say about them.

c. Identify the "growth" and "declining" industries so you know what to tie into or drop.

While the boundaries of the U.S. Economic censuses make it difficult to get the right information for the right area, the data is there and in some cases may fit your needs. The end of Chapter IX shows the type of information you could get from these Economic Censuses.

If you are fortunate and the economic censuses have data on regions contiguous to your community, you might be able to compare the type of workforce with the occupations of community residents derived from the U.S. census of population. The extent of correlation may denote the extent of economic linkage between your community and the region.

D. Inferences about the Community

The data base developed in the previous sections of the worksheet should aid you in determing some basic ideas behind community problems. So far you have at least documented the poor economy in your community. Now you should consider why.

A rigorous attempt to document the causes of poverty would require much research and probably would not be worth the effort. Figure I.11 , however, should aid you in thinking about the diverse reasons that can be behind say, low average income of households and unrelated individuals. Chapter IX gives you the definitions for these terms but basically it includes families living together and people living by themselves. If you find that by just looking at the income of families the average jumps, it implies that there might be a considerable number of retired or poor senior citizens living in your community. You could then double check the census data for the number of elderly people, say 55 years of age or older, and get another clue. With a little further initiative you could learn the extent of welfare, government and health services provided the elderly. Thus you could make a pretty fair guess that low income elderly are a major cause of the low average income in the community.

Just this simple contrived example, if true, has important implications for your economic development policy. The purpose of Figure I.11 is to make you think about these problems and resources in your community. Figure I.12 similarly presents the table of potential community resources.

After going over the data collected from the worksheet, and then meeting further requirements to respond to the two figures, you should organize a list of community problems and resources.

FIGURE I.11

COMMUNITY PROBLEMS

CONSUMERS OR HOUSEHOLDS

Employment

Potential sources of unemployment

Insufficient skill levels for existing jobs
Large number of inexperienced youth
Large number of unskilled workers
Insufficient job opening

Racial discrimination by business
Racial discrimination by unions

Unemployment caused by transportation problems
i.e., absence of public transit
high cost of transportation

Poor self-image
Lack of ownership opportunities

Income

Potential sources of low income

Heads of households and families earning low wages
Large numbers of senior citizens or handicapped people in the community
High unemployment in the community

Health

Potential sources of poor health delivery

Inadequate health facilities: hospitals, clinics, etc.
Information on existing services
Transportation to existing health facilities
Cultural prejudices
language problems
Cost of services

Housing

Potential sources of housing problems

- Shortage of housing
- High cost of housing
- Redlining
- Dilapidation
- Landlord/tenant disputes

Education

Potential sources for poor education

- Facilities
- Teachers
- Discrimination
- Bilingual programs, absence of
- Inadequate tax base

BUSINESSES

Potential sources of business problems

- Declining retail business sales
- Declining manufacturing
- Declining service oriented businesses
- Declining number of farms
- Declining agricultural prices
- Declining employment by business sector
- Problems with credit
- Declining tax base
- Poor infrastructure for businesses
- High crime — burglary, theft, rape, vandalism
- Racial discrimination
- Financial institutions — their policies and lending practices
- Lack of capital

GOVERNMENT

Potential sources of problems

- Poor political representation — low voter participation rates, inequitable distribution of power
- Community does not receive fair share of government
- Poor municipal services
- Roads and sidewalks
- Sewers
- Garbage
- Transportation
- Inadequate commitment to affirmative action

Figure I.12

Community Resources

Consumers

Size of labor pool
Special skills available in the community
Reliability of the labor force
Trainability of the labor force
Organization existing in the community that can aid in the development process
Managerial talent
Ethnic focus drawing tourism

Businesses

Locational Advantages

Access to markets
Access to transportation — sea, rail, air, freeways
Access to raw materials
Access to capital

Business Specialization

Retail Trade — particular specialization, e.g. restaurants
Services — particular specialization, e.g. Business Services

Government

Attitudinal

Supportive of community Economic Development

Direct Assistance

Provides contracts to CDOs
Provides technical assistance
Commits resources to community needs


II
INVESTMENT
STRATEGY

CHAPTER II

INVESTMENT STRATEGY

CHAPTER SUMMARY

This chapter focuses on planning for community economic development. It builds on material developed in the worksheet of the previous chapter to develop a general framework for making planning decisions. Within this framework, a four step process is presented:

- understanding community goals
- formulating organizational goals
- formulating economic development strategies
- looking for projects to implement these strategies

While these represent important steps in planning for the development process (Part II of the Handbook), planning from a management perspective is considered in Chapter VI. In addition, project planning is discussed in Chapter III. Chapter X looks at project evaluation.

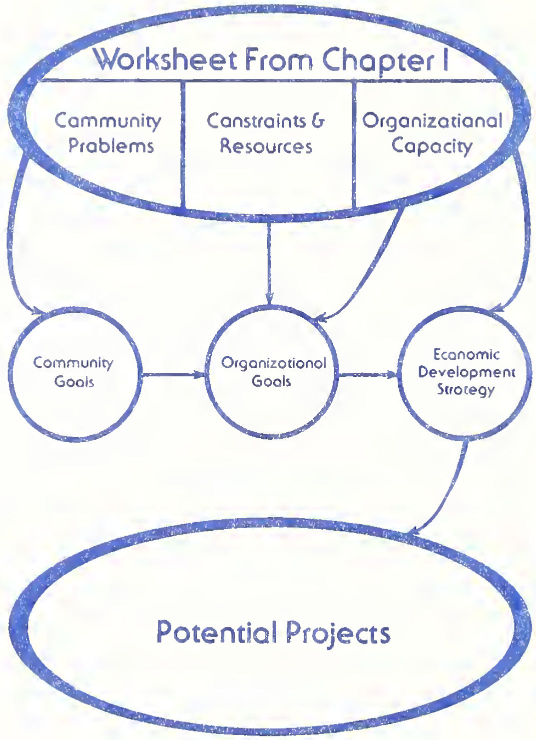
HOW THE CHAPTER IS USEFUL

After visiting six different successful CDOs, the authors of this Handbook found that much of this success could be attributed to planning. The successful CDOs knew what their mission in the community was. They knew what they could or could not do, and had developed definite strategies formulated to help them accomplish these goals. They did their homework on projects, and, while these projects might not have been always successful, the overall record was excellent. Most important of all, these CDOs learned from their mistakes.

Thus even though each of these organizations had different goals, collectively they shared some common approaches to getting things done. It is some of these common ingredients that are focused on here.

In addition to the usefulness of this chapter to the CDO, many federal agencies require that organizations put together an investment strategy as a prerequisite for funding. While you should read and respond to an agency's specific guidelines, what you find here should be particularly useful in putting together your investment strategy. Figure II.0 shows the basic conceptual framework of the chapter.

Figure II.0



Planning is a very loosely used word in our society. This means that different people have different notions of what constitutes planning. A dictionary has two relevant definitions: "a method for achieving an end", and "an orderly arrangement of parts of an overall design or objective." An economist, on the other hand, views planning as the process of allocating resources toward some goal. The resources to be allocated include money available to the CDO, people both within the community and the staff of the CDO, and any other available assets ranging from buildings to political support. The goal here, of course, is community economic development.

In the context of this Handbook, there are three different types of planning under "community economic development."

- Planning for the economic development of the community
- Planning for the CDO
- Project Planning

The first one involves identifying community goals, and following this up by deciding on interrelated alternative economic development strategies. Thus does the community need housing rehabilitation, more CETA programs or both?

The second type of planning considers that since the CDO is going to be the catalyst of community economic development, certain things must take place *organizationally* so that the first type of planning can proceed. For example, given that housing rehabilitation is needed in the community, you should consider what kind of expertise you must develop in the CDO, and by when.

The third type of planning assumes the first two have already occurred, and, as the name suggests, is related to specific projects. Thus, given that you want to move into housing rehabilitation and you have the expertise to run such a project, or will soon have it, your plan now should be to select a project, test it for feasibility, and design a program for its implementation.

This chapter is designed to help you carry out the first type of planning, with planning for the CDO discussed in Chapter VI, and project planning and evaluation considered in Chapters III and X, respectively.

Because this chapter takes the economist's approach and views planning as a resource allocation process, the title *Investment Strategy* is meant to be suggestive.

Planning Terminology

You frequently hear about goals, objectives, sub-objectives, and action plans, and people have heated arguments about the meaning of these terms. For the purposes of this Handbook, the following terms are applied as follows:

- *Goals*

  Goals are general statements on what needs to be accomplished over the next five to ten years. While being general, they should provide important information on where the community or organization would like to concentrate its efforts during this period of time.

- *Objectives*

  Objectives are your overall purposes of positions to be reached. They are relatively short-range, perhaps a year or so. The requirements of the CDO and its development process will set the length of an objective. For example, your CDO might have an objective that says: "Establish three low-technology manufacturing enterprises employing at least 250 employees from our impact area within two years."

- *Sub-objectives*

  Sub-objectives are end results desired by a specific time. Sub-objectives tend to be more concrete, more limited in scope and time, than objectives. Generally, several sub-objectives will have to be achieved and integrated to reach an objective. For example, a manager in your CDO might have the following sub-objective: "Complete the prospectus/business plan for three low-technology manufacturing enterprises by the end of the year."

- *Action plans*

  Action plans are steps, activities, tasks, projects or programs, which together accomplish sub-objectives. Action plans are the ultimate step that make formal planning work. Action plans imply activities — people doing things, working and interacting with others inside and outside the organization.

- *Economic Development Strategies*

  Economic development strategies are a combination of all of the above. The most important aspect of development strategies is that they provide strong *linkages* between the action plans of the diverse goals. An example is the linkage between CETA programs and housing rehabilitation. The wages of workers are subsidized by CETA contracts, as in the case of Adopt-a-Building in New York.

II.1 PLANNING FOR COMMUNITY ECONOMIC DEVELOPMENT — A SUGGESTED FRAMEWORK

Planning and implementing community economic development is a challenging task, and planning has a unique set of problems:

- Limited resources relative to the magnitude of the task. The public sector does not have enough and often the private sector has pulled out.

- A high level of uncertainty. Besides the uncertainty caused by the shifts in the market economy, the CDO planner faces the uncertainty created by changes in public sector programs as well.

- Lack of recognition of the CDO as an institution. This is certainly true for private sector and to a lesser extent by some public sector agencies as well. Besides problems this causes CDOs in obtaining financing, it also makes it difficult for the CDO to enter into certain legal arrangements.

These planning problems pose such handicaps that some have argued that CDOs cannot be involved in serious planning but have to rely on opportunism. What is really meant by this is that *rigid* planning for a CDO just will not work. This chapter is intended to show that there is a type of planning possible that allows you to plan and maintain flexibility at the same time. Before this type of planning is presented, it is useful to consider the overall framework for planning decisions.

A. The Goals of Community Economic Development

To serve as a catalyst for reducing important socio-economic problems in the community, it is imperative for the CDO to clarify its goals for the community. As noted in Part I, the community may be defined as a combination of:

- A geographic area
- Some or all the residents of the area

Community economic development is the process by which a community based non-profit organization aids, directly or indirectly, in the creation of jobs, increased income, and services for the community. Alternatively, community economic development attempts to alleviate the major economic problems encountered in a community.

B. Constraints

Constraints are things beyond the planner's control. They restrict the options available for community economic development. It is helpful to divide the constraints into two categories, community constraints and external constraints. Both have been examined in the worksheet of Section I.4 under community problems, and assessment of external factors.

1. COMMUNITY CONSTRAINTS

There are various forms of community constraints, and these vary depending on the community. The list provided is intended to be more suggestive rather than complete.

- The social values of the community* — in terms of attitudes toward community economic development, work, etc.
- The interests of other community institutions — these institutions vary among other community groups affiliated with churches, businesses, social service organizations to political representatives.
- Economic constraints** — these include the type of economy in the community, the availability of vacant land, etc.

2. EXTERNAL CONSTRAINTS

Often regional constraints dominate over community constraints, particularly if the community is small relative to the region. In fact, some experts would

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*These social values can be quite striking if you consider some ethnic minorities like the Chinese, who have a low unemployment rate of around 3% apparently because they are willing to work for as little as $1.50 per hour. Similarly, undocumented workers also are willing to accept wages below the market rate for citizens and legal immigrants.

**These constraints are tricky. On the one hand the objective of community economic development is to *change* the local economy, while on the other hand it is obvious that the basic character of the economy may not change. You may, for example, have a bedroom community with only some retail and service businesses and with no vacant land, or you may have a rural community that is completely agricultural. These represent strong constraints on development.

argue that these constraints are so important that in certain cases community economic development may be impossible.

- *The state of the regional economy.* This requires identifying the trends in terms of different sectors and aggregate growth or decline. Propensity to hire community residents.

- *Legal Constraints.* These constraints can be found at any level of government. An excellent example would be the regulations of the Economic Development Administration (EDA) that do not allow one to use EDA funds to relocate a firm.

- *Attitudes of regional political representatives and other regional bodies.* If a local senator or congressman is not willing to support your organization, you will be continually facing an uphill battle.

C. Resources

The determination of what is a resource depends on the particular situation. For instance, the regional economy can be both a constraint or a resource. An upsurge in construction represents a resource that your CDO might be able to tap into just as a decline in manufacturing may hurt the region and be a constraint. It is useful to divide resources into three categories:

1. RESOURCES OF THE CDO

- The education and expertise of the CDO staff

- Money available to the organization

2. COMMUNITY RESOURCES

- Volunteers in the Community

- Other community institutions — (if helpful), i.e., churches, Chambers of Commerce, planning departments, etc.

- Political resources — community political representatives, willing to support the CDO's efforts

3. REGIONAL RESOURCES

- The regional economy — if prosperous

- Financial resources provided by foundations, community trusts, and other private sources

- Financial resources provided by the public sector

D. Components of Planning for Community Economic Development

As noted, a CDO is a unique institution. It must interact with the community,

the various levels of government, and the private sector. At the same time, the CDO itself has different components within it, the Board of Directors, the staff, and the for profit and non-profit wings. These different areas were explored in the worksheet of Section I.4

Planning for community economic development should take this framework into account. The challenges of planning are:

- How to ensure that the people of the community benefit, rather than the physical area.

- How to maintain sufficient flexibility to take into account the unforseen shifts in the private and public sectors, while maintaining a sound direction for the CDO that is in keeping with the needs of the community.

- To ensure a close linkage between the planning and implementation functions of the CDO.

The planning process considered here addresses these challenges. It is organized into:

- Understanding community goals

- Formulating organizational goals

- Formulating economic development strategies

- From strategies to projects

- Finding projects

II.2 UNDERSTANDING COMMUNITY GOALS

In Section I.4 you were asked to create a list of community problems and resources. Now it might be useful for you to try to establish priorities for these problems.

While it may not be possible to arrange these problems from one through say twenty, it is usually feasible to categorize them by:

- *Critical problems* — i.e., youth unemployment at 50%. No pharmacy within 10 miles of the community. Severe red-lining in the area. One third of residential housing declared dilapidated. No employment base in or near the community.

- *Important problems* — i.e.., poor knowledge of existing social services in the community. Poor grocery stores in the area. Poor public transit for the low income, senior citizens and handicapped.

- *Significant problems* — i.e., unresponsive political representation. Graffiti on businesses giving a bad image to the area.

A. Issues in Inferring Community Goals

You may have been surprised at the term "inferring" in the title to this subsection. Its use is deliberate. One cannot dictate what community goals ought to be, but rather one infers from all types of data* what the goals of the community seem to be. In sharp contrast, organizational goals are creatively formulated by the organization. The goals that you outline for the community will only be perceptions of what you think the community wants. You should try to test these perceptions in a number of ways, from talking to other important community groups in your area to holding community meetings and surveys. Before you get too involved in these activities, it might be useful to read Chapter VII .

An important aspect of developing goals is to recognize the difference between *constrained* and *unconstrained* goals. In one survey, community residents were asked their priorities for community goals. Among the top three were large shopping centers with nice stores, increased employment opportunities in the community, and decreased youth-related crime. These are examples of unconstrained goals, and they are often similar to a "wish list".

At the same time, this predominantly residential community had a record of bitterly fighting urban renewal.* Thus if your CDO had followed the unconstrained goal of building a shopping center and leveling homes, it would have run into trouble. The more relevant question would have been, "Do you want a shopping center in your area even if it requires removal of homes, street modifications, and increased air and sound pollution?" Then it would have become a constrained goal. The nature of the community created a constraint on the ability of the shopping center to meet the real needs of the community.

B. Translating Community Problems and Resources into Community Goals

At the beginning of Section II.2 it was suggested that you categorize community problems as:

- Critical problems
- Important problems
- Significant problems

Now if goals are to prove useful they should be consistent with the overall framework for planning presented in Section II.1 The constraints in subsection II.1B are particularly important. The material developed in Section I.4 should also be useful.

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*In Chapter I, different types of data were discussed along with a brief discussion on what ought to be gathered. This data gathering is supplemented by Chapters VII and IX respectively.

*There was very little vacant land available.

Keeping these things in mind, there are two ways of understanding community goals. One approach brings out the long run economic development goals of the community, while the other simply takes the important problems and redefines them as community goals.

The *first* approach relies on implementing three categories of economic development:

- Creating permanent jobs for the community — either on the supply side by upgrading education, skills, and better job placement, or on the demand side through creation of business.

- Creating increased income for the community either through jobs, as above, or through increased grants for the area.

- Creating improved services in the community — such as health, transportation, credit for residential and business use, etc.

The *second* approach takes the list of problems by category and defines goals accordingly. One would then have:

- *Critical goals* — reduce youth unemployment from 50% to 25% over the next seven years. Provide a more convenient pharmacy service to the community over the next three years. Improve credit availability for homes and businesses in the area over the next seven years. Increase the quantity of good housing in the community.
- *Important goals* — provide a mechanism to improve the knowledge of existing social services by the community in the next three years. Improve the quality of grocery stores in the area. Find a mechanism for providing better transit facilities for low income, senior citizens and the handicapped.
- *Significant goals* — help build ties between the community and the political representatives. Organize the community to find ways of reducing graffiti.

Either approach can work well in understanding community goals. The advantages of the second approach lie in focusing attention on the totality of community needs rather than in just concentrating on job and income development. While jobs and income are certainly among the highest priorities of economic development, there may be situations where the inherent possibilities in a community do not allow for extensive improvements in these areas. In such cases, the approach of community problem solving would put prime emphasis on development of services like a pharmacy, health care facility, food stamp programs, co-operatives to reduce food prices, convalescent homes, etc. *In such cases job development would be viewed as an important secondary goal*. This point is further discussed in Section II.4 as part of formulating economic development strategies.

Also, both approaches presented above have some form of constraints built into them. Thus the critical goal of reducing youth unemployment by one

half is targeted over seven years. This acknowledges the realities of the situation.

II.3 FORMULATING ORGANIZATIONAL GOALS

Organizational goals represent the mission and purpose of your CDO. They help determine the allocation of organizational and community resources toward furthering community goals as they were developed in the last section.

As Chapter VI on *Management and Organization* points out, organizational goals also help to determine how the CDO should be organized. They also help to provide the motivation for people to work in the community. Perhaps the most common mistake made by CDOs is to presume that from the beginning you should tackle the most critical community goals first. Remember, the ability to make any progress at implementing a goal is highly dependent on the resources in the community, your organizational capacity, and on external factors. If your organizational capacity is insufficient compared to the magnitude of the task, you will suffer serious setbacks. At the beginning, pick something that is more easily implemented and allows you to build a track record. *Then* move onto bigger and better things.

A. Important Issues About Organizational Goals

CDOs often overlook the importance of spending time on thinking through their goals. This is often viewed as a requirement of some bureaucrat who needs to be dealt with to the minimum amount necessary. As the organization starts facing the day to day problems of survival, a changing environment, etc., it finds itself getting into activities that would have seemed unthinkable at the beginning. This is not always bad, but it can be a sign that the interests of the community have taken a back seat in response to outside pressures. This means that the goals of the organization change without anyone sitting down and making the decision.

One of the clearest ways you can see this change of goals is in the issue of people prosperity versus place prosperity. All CDOs, it is hoped are there to help the community. Then it also follows that every CDO project should, directly or indirectly, sooner or later, benefit the community. This is called *people prosperity.*

In sharp contrast it is also possible to implement projects that have a negative impact on the community. Projects that are particularly dangerous in this regard are those that *look* impressive. Suppose a CDO manages to bring an IBM computer manufacturing facility into an inner city area. It is a good bet that most of the workers are going to come from outside the community.* Similarly, their tastes will be such that they may tend to go outside even for their mid-day lunch expenditures and thus deprive local restaurants of possible business. The community probably would benefit minimally. Another case is that of housing rehabilitation that produces houses the community cannot afford, resulting in an in-migration of higher income people and an

*This could happen not because IBM is discriminating against the community residents, but because of market forces.

out-migration of community residents. The community suffers instead of benefitting, and the only benefits to the area are an increased tax base. As such it is a case of *place prosperity*.

B. The CDO Goal Statement

As noted, your organization's goals help define the priorities of the organization. They also are important in conveying the nature of your CDO to the community, political represenatives and any other outside group.

Determining your goals should be the responsibility of your CDO board. If the CDO also has a community Board (see Chapter VII) then both boards should also be involved in the determination of goals.

Although the formal authority in determining goals is a board function, there should be strong interaction with the staff. This helps ensure that there is a close link between planning and implementation.

It is also useful to break up goals into *short run* and *long run* goals. Short run goals are those that can be implemented within your existing organizational capacity (see Section I.4 for listing of organizational capacity). Long run goals, on the other hand, require structural changes and growth in your organization before you can implement them. Another important distinguishing characteristic is that the short run goals place a stronger emphasis on the development of the organization while long run goals emphasize the implementation of community goals.

To illustrate these points, goals for two different CDOs — The East Los Angeles Community Union (TELACU) and Kentucky Highlands Investment Corporation (KHIC), are presented:

1. TELACU Goals

a. Short Run

- To garner contracts from the public sector that help develop the economy of its area.
- Establishing non-profit organizations that could fill the gaps in providing vital institutions for community economic development. In this case funding would be dependent on leveraging money from the public sector.
- Build up networks of contracts with the public and private sector for use in pursuing the long run goals of the organization.
- Build up management capacity in the organization required to accomplish long run goals.
- Organize an investment strategy for venture capital.*

These goals benefit from the previous unsuccessful experience of directly jumping into starting new businesses.

b. Long Run

- Create large scale employment opportunities for its community, both through CETA programs and job creation in an industrial park.
- Start businesses that fill gaps in existing community needs, i.e., increase credit availability.
- Start businesses that provide revenue for TELACU to start its own programs in the community.
- Establish TELACU as an important voice for the community.

  Establish important human services for the community, like transportation for the elderly and handicapped, etc.

In the case of KHIC, located in rural Kentucky, in a community of about 200,000 people spread over 30 square miles, the pattern of goal development seems to have been similar to TELACU.
Initially, the thrust was toward immediate job development like TELACU, and while the failure was not quite as dramatic the overall impact was marginal. Thus, beginning in 1972, while the overall goals in terms of job creation remained the same, considerably more emphasis was placed on planning.

2. KHIC Goals

a. Short Run

- Build up organizational capacity to attract firms to the area and facilitate their activities.
- Establish a planning process that allows the CDO to systematically seek ventures.
- Explore ways of providing for the health needs of the community.

b. Long Run

- Creation of permanent jobs in self reliant businesses.

  The creation of an asset base that makes Kentucky Highlands independent of any one funding source.
- Organizing businesses in which Kentucky Highlands would have equity but would not control.

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*As indicated, TELACU is a Title VII Community Development Corporation under the Community Services Administration (CSA), and thus receives venture capital from the CSA.

- Set up health care programs in the area.
- Provide technical assistance to other community groups in setting up industrial parks, etc., in their area.

II.4 FORMULATING ECONOMIC DEVELOPMENT STRATEGIES

Once your CDO has defined its goals, you need a detailed plan to implement them. There are two parts to this process, a logical sequence of steps necessary to produce implementable programs of action, and the nitty gritty efforts of building organizational capacity, community consensus, political and agency networks, etc. Then there is the whole process of picking projects, determining project criteria, and finding resources to implement Planning and Packaging an individual project as covered in Chapter III.
All these diverse activities are considered under economic development strategies.

A. The Framework for Formulating Economic Development Strategies

Given the CDO goals, a five step procedure is useful in deciding on investment strategies:

- *Convert goals to specific obectives* — i.e., train 150 community members in construction skills over the next 18 months.
- *Consider various alternatives* — i.e., 1) Use CETA programs to place these workers wherever possible, in or outside the community. 2) Have them work on a CDO project in the community.
- *Predict consequences* — what are the likely consequences of each alternative? What will be the benefits to the community? What will be the costs to the CDO? To the Community? For example, by placing the workers wherever jobs are available, the people placed will get a wider range of experience for the larger job market. On the other hand, by working in the community there will be two benefits, the income earned by the workers and the services provided to the community. Also, your CDO will get better exposure.
- *Value the Outcomes* — keeping in mind that some alternatives will be better with respect to certain objectives than with others, how should different combinations of objectives be compared? Suppose you use the 150 trainees in the community to build a health center. If your CDO puts emphasis on the objective of providing for health needs, then alternatives of placing the trainees in the community would be more valuable. On the other hand, if the trainees are going to be used in building park benches in the community, then the CDO *might* find it better to place them outside the community. The value of the objectives determines the choice of the alternatives picked.

  Make a choice — after considering all aspects of the analysis, decide on the best way to go.

It should be emphasized that it is not always possible to choose a course of action in such an orderly fashion. Reality is far more complicated. You may have to proceed through these steps a number of times. The logical steps presented should, however, help you think through the problem systematically.

Often people will tell you to consider *all* alternatives. This usually means that they have not been involved in a meaningful planning and implementation effort. Usually two or three alternatives are sufficient. The important thing is to keep an open mind as you proceed with your analysis.

While the actual strategies you adopt will depend on the comparative advantages in your community and the state of your organization, the following list should give you ideas. Appendix B will provide you with some potential federal funding sources.

- Industrial Expansion or Retention
- Commercial Revitalization
- Transportation
- Housing Rehabilitation
- Land Banking
- Manpower Programs — CETA, etc.
- Financial Institutions
- Retail Business Development
- Services — i.e., Convalescent Homes, etc.
- General Construction
- Historic Preservation

B. A Characterization of Different Economic Development Strategies

Given the large variety of problems in a community and the multiplicity of organizational goals, your CDO will often have a large number of strategies to choose from. All of these strategies will have one or all of the following characteristics:

- Generating revenue for the CDO to increase its organizational capacity with respect to its long run goals.
- Stressing community advocacy for existing government programs.
- Utilizing government contracts to provide services for the community.
- Developing business — for profit ventures.

Consider an effort to rehabilitate homes. If done correctly, it will improve the community's stock of housing. There might be other spinoffs as well. In the process of implementing projects new CDO staff are trained and those lacking the required skills are identified or fired. Better still, you might find room in the budget for moving into other strategies, such as a business development strategy of housing rehabilitation led to the above stated points. Consider another CDO effort to try to get more revenue sharing for the community as a whole. Although clearly a case of community advocacy, it might lead to other community groups creating *government* programs that provide jobs and skills for the community. Then the strategy has led to the second and fourth points above.

In a business development effort, there should be two objectives: 1) to generate a profit and 2) to provide a service to the community. The profit can then be utilized for whatever purposes your CDO and the community deem fit.

As one goes down the list these strategies become increasingly difficult. Business development, in particular, is by far the most difficult for a CDO to plan and implement. Unfortunately, business development strategies are precisely the ones required to implement economic development on any meaningful scale.

Data compiled by Dunn & Bradstreet reveal that the private sector itself is not very good at launching small businesses. Their findings suggest that, on the average across the nation, one third of the small businsses fail during the first year of operation, one half by the second year, two-thirds by the fourth year and four-fifths by the tenth year. Since CDOs are often located in economically depressed areas, the risks for business development are even greater. It is generally believed that the major cause for this failure lies in management.

Since some of the prime clients of this Handbook are community groups with a social service background that are for the first time moving into economic development, it is useful to divide these strategies into *non-profit* and *for-profit types*. All business development is then a for-profit category.

If you are seriously going to pursue business development as a strategy, remember to consider a large number of possibilities and not quickly focus on manufacturing or retail trade. An often overlooked area involves convalescent and senior citizen homes, food co-operatives, farmer co-operatives etc. A considerable amount of federal money has been committed to helping senior citizens obtain these services that result in their being ripped off. A CDO with its roots in the community and high motivation can deliver quality care and perhaps make a profit that can be utilized in other social service programs.

Another often overlooked area is tourism. If you are in an ethnic neighborhood or in a rural area with a rich historical past, then it might be more advisable to build on economic development strategy around these community resources. Your CDO could aid local merchants in setting up a Local Development Corporation (LDC), or create a MESBIC for investing equity capital in commercial centers catering to the tourist trade.

C. Linking Economic Development Strategies

Once you have analyzed a number of potential economic development strategies, your next step is to consider *linkages* among strategies. These linkages are obvious when you consider CETA programs, since you can link them with other programs funded by the government or you can create new programs in the community to meet important needs. For instance, Adopt-a-Building in New York uses CETA funds to train residents to rehabilitate old residential buildings in conjunction with over $5,000,000 from HUD. Similarly, TELACU uses CETA money to support the Senior Citizens Food Co-operative.

The concept of *leveraging* explained in Section VII.1 creates financial linkages among projects and strategies. Thus, a MESBIC (see the Glossary of Technical Terms) provides an attractive vehicle for building up community businesses but when linked with say an industrial park or CETA Title VI programs becomes particularly powerful.

A third type of linkage results from the interactions in the economic system. An economic development strategy will hopefully produce increased employment and income in the community. There are, however, three types of employment and income effects:

- *Directo employment or Income* — from the labor force working on the project or venture. Suppose a CDO starts a shoe manufacturing factory hiring 50 workers with a payroll of $500,000 per year.

- *Indirect Employment or Income* — created in industries providing the industry with goods and services. Suppose the shoe factory purchases hides from a tannery that adds to its work force to meet the increased demand. The tannery then adds 10 workers with a payroll of $100,000

- *Induced Employment or Income* — created by the purchase of additional goods and services by the labor force, directly or indirectly employed by the project and project suppliers. Now suppose the 50 workers at the shoe factory spend half their income of $500,000 in the area just like the tannery workers who spend half their payroll in the area. This creates 30 more jobs and a payroll of $300,000.

Thus total employment created by the project includes direct, indirect and induced employment. A total of 90 jobs would have been created. The total payroll would be $900,000.

As a practical matter in an economy such as the U.S., those different categories of employment and income impacts can be spread over vast distances. The tannery may be 1000 miles away from the shoe factory. While in a large rural county there may be indirect employment created, the chances for a small inner city area to generate indirect employment are highly unlikely.

The situation is quite different regarding *induced* employment or income. Even in the case of an inner city urbanized area like unincorporated East Los Angeles, mentioned in Chapter I, almost 80% of the annual household expenditures were in the community. For large rural areas, for a project located near the center employing local residents, the percentage of local expenditures would be just as high, if not higher.

This means that there are opportunities to capture these induced employment and income effects. The simplest case is that of putting in a large office building and starting a restaurant, or helping one to get started, that caters to the "lunch hour" needs of the workers. A very detailed market analysis would naturally be required before starting such a venture.

Keep in mind the difference between one shot and permanent projects. If a CDO hires five people to upgrade a community center then the employment impact is different than for a business which hires five people permanently. The improved services of the community center remain.

D. Some Practical Aspects of Formulating Economic Development Strategies

As you start formulating economic development strategies you have to make some crucial choices:

- To what extent does your CDO want to "run the show" — versus creating organizations that can be spun off — or helping existing organizations in the community.
- What will be the form of community involvement in strategy formulation. You may decide to limit it to the CDO Board or you may want to broaden it by organizing a community board for each individual strategy.

Your first choice is particularly crucial. If you do not wish to have your CDO in charge of everything (and there may be some very good reasons for this), you will be either providing incentives for private and public sector organizations or you will be going to existing community organizations and providing them technical assistance. Then the type of organizational capacity will be very different from the type necessary to run businesses yourself. TELACU, for instance, tends toward running things itself. Thus there is a TELACU Industrial Park. KHIC, on the other hand, tends to spin off ventures or aid other community groups.

In either case it is important for you to keep in mind that building up the *organizational capacity* of the CDO is an integral part of any strategy formulation. In fact, in some cases where a long run difficult goal is being attempted, it sometimes makes sense to develop organizational capacity *before* even attempting the definition of specific objectives.

For example, both KHIC and TELACU have been attempting to provide health care in the community for at least two years. So far no health care

facility is in operation or even being constructed. The long delay is not due to inefficiency but to the complexities of the strategy and project. Now if either CDO boards had sat down and passed a resolution that three years hence a Health and Maintenance Organization (HMO) would be in operation, they would have been way off, both in terms of the type of health institution necessary and the deadlines.

II.5 FROM STRATEGIES TO PROJECTS

There are two aspects before implementing an economic development strategy through projects. The first element is finding projects. The second is actually selecting among them.

A. Finding Projects

There are two broad types of projects that require different search strategies. They are:

- Non-profit projects — including economic development programs like CETA and non-profit institutions like Business Development Center of OMBE.

- For-profit business development projects including institutions like MESBICs.

For non-profit projects the quickest route is to write down your strategy and look through the *Catalog of Federal Domestic Assistance.* Appendix B also presents a useful summary of programs. Section VIII.3 explains the cross references available. This allows you to identify a large number of potential projects for which your CDO is eligible. For setting up institutions like Business Development Centers, it is best to contact OMBE directly.

The more difficult part of your search comes after you identify a program that could be useful in your strategy. It is best to make a person responsible for learning all about the relevant set of programs. Thus if your interest is housing rehabilitation, appoint or hire someone to become an expert on all appropriate housing programs. Then this person should also be in charge of developing appropriate contacts at the local, state and federal level to determine the important decision-makers and discover the fine-tuning of grantsmanship.

For business development projects within a particular strategy, your biggest problem is to find equity capital if you are not a Title VII CDC. There are two ways to possibly obtain this money. You can go to private foundations, community trusts, etc., and link it up to various government programs of the Small Business Administration. Chapter VIII can aid you in putting together additional sources of financing for a strategy.

While there are few organized procedures for finding business ventures, it is useful to keep in mind all the six possible options available. These are:

Figure II.1

SIX ALTERNATE FORMS OF BUSINESS OWNERSHIP

	Start-Up	Acquisition	
		Successful	Failing
Total Ownership	Alternative 1	Alternative 3	Alternative 5
Part Ownership	Alternative 2	Alternative 4	Alternative 6

Thus, a CDO starting a new business under complete ownership would be alternative 1, while if it joins ventures with someone else it would be following Alternative 2. Similarly, one can buy complete ownership of an existing successful business (Alternative 3) or of a failing business (Alternative 5).

The trick to finding ventures is to make yourself visible so that they can find you. If you can set yourself up as a MESBIC or other equity holding group (see Section VIII.1), you will attract entrepreneurs more easily. Make yourself known to lawyers associations in general, and bankruptcy lawyers in particular, besides professionals such as accountants, bankers, and financial consultants.

Often these professionals are aware of business possibilities. Once you know the type of business you want you can also advertise in the appropriate trade magazines. Your local librarian should be able to help you there.

If your CDO board has been selected keeping in mind the needs of economic development (see Section VIII.2), then your board should also be helpful in finding businesses.

B. Project Selection Criteria

Even if you have a well defined economic development strategy, and you found a number of potential projects, you still must pick the appropriate ones. While this matter is taken up in detail in Chapter III, there are three categories of relevant questions:

1. How will it help the community?

    a. In terms of alleviating community problems identified in Section I.4.

b. In terms of jobs, income and services. Remember to break down employment and income effects by direct, indirect and induced.

2. How will it help the CDO?

   a. In terms of image in the community.

   b. In terms of organizational capacity

   c. In terms of future survival.


III
INDIVIDUAL
PROJECT
PLANNING &
PACKAGING

CHAPTER III

INDIVIDUAL PROJECT PLANNING AND PACKAGING

CHAPTER SUMMARY

At this stage in working through the rational development process, you have formulated what we have called your "investment strategy". You know what the needs and resources of your community are. You also know your capabilities and limitations as a CDO. You have a clear picture of exactly which community needs you will address and in what order. You have defined your CDO goals and broken them down to measurable and achievable objectives. Furthermore, you have chalked out action plans or strategies to accomplish each defined goal. Within these strategies, you have searched for possible projects to implement and have identified several that look like good bets. This chapter takes you through the next logical step in the development process—the "Planning and Packaging" of individual non-profit and business projects. In the preceding two chapters, you assessed community problems in general and developed overall goals and strategies for your CDO. Now you will select a particular problem and design, one by one, specific projects that you can implement within your overall investment strategy.

Project packaging is the important link between your investment strategy and the final implementation of economic development that comes out of it. For, before you can actually implement a project, you must, at the least, secure the finances for it. In most cases this is someone else's money—be it a public or private source. You will see in greater detail in Chapter VIII that whatever source offers to finance your project will make sure to get its money's worth out of you *before* you get the money. More importantly, you yourself want to make sure that you do not have a project that is poorly run, frustrates those involved, and meets no one's needs. Thus, to ensure the greatest advantage of your economic development efforts and also to be able to secure finances, you will want to work out all the intricate details of any project that you wish to implement. However, the same word of caution once again: What is presented here as a logical linear process is in reality an incremental course of action. You will, of course, want to know as much and plan out as many details of every project prior to implementation as possible. However, information is expensive, there are diminishing returns to information and there is never a hard and fast answer to the question: How much planning? As Figure III.0 shows, this chapter is divided into three major sections: 1) preparing the project plan, 2) writing the project proposal, and 3) preparing a business plan and proposal. The first section deals with non-profit projects while the last section is geared to for-profit ventures.

Figure III.0

HOW THE CHAPTER IS USEFUL

If you follow the process outlined in this chapter, you can achieve several things:

- "Fine tune" a problem you are addressing within your investment strategy (Chapter II.4).
- Gather the information from your initial assessment (Chapter 1) and collect more (only if need be!) to clarify and substantiate the problem.
- Take a closer look at the possible projects you have identified in Chapter II.5 as possible solutions to the problem.
- Select the project you would implement as a solution to the problem.
- Identify the project goals and objectives.

- Define the methodology for meeting the objectives.

- Identify the resources you have or would need (Chapters I and VIII) for the project.

- Identify how you would evaluate your progress and end results.

All this will directly feed into your project proposal or business plan, and help others (including evaluators and funding sources) understand what you are about.

Figure III.1 shows the major steps involved in packaging non-profit projects and for-profit business projects. The important aspects of the application process common to both can be seen in the middle.

III.1 PREPARING THE PLAN FOR NON-PROFIT "REGULAR" PROJECTS

The project plan you develop will become your implementation guide. You are starting with a general notion of a problem that needs to be solved and you want to end up with a complete project plan. These are the steps involved:

A. Analyzing the Problem

The first step is to fully define the problem you identified in your investment strategy. An important distinction here is a change in scale and specificity. In Chapter I and Chapter II you assessed and analyzed community problems in general and developed overall goals and objectives for your CDO. Now you select a particular problem you want to readdress and design specific projects that you can implement within your overall investment strategy. To find out as much as possible about the problem, you need to:

- State the problem precisely

- Support it with facts

- Explain its causes

- Describe the consequences of not solving the problem

It sounds fairly straightforward, but fight the urge to find solutions until you have agreed upon all these factors. Writing them down is perhaps the best approach.

1. WRITING A PROBLEM STATEMENT

Since problems usually have a negative connotation, the clearest way to state one is to use the negative form:

Figure III.1

Worksheet From Chapter I
Potential Projects From Chapter II
Analyzing Projects
Selecting Projects
Non-Profit Projects
Application Process
For-Profit Business Projects
Defining Constraints & Objectives
Project Methodology
Scheduling Tasks
Budgeting
Monitoring Systems
Pre-Application
Application
Post-Application
Market Study
Sales Plan
Technical Plan
Operational Plan
Financial Plan
Business Plan
Packaged Project

- "There are no . . ."
- "The CDO has not . . ."
- "The Community does not . . ." etc.

Narrow the problem. Nail it down with a single statement and have everyone agree on it. Consider the following sample problem statement:

Sample Problem Statement: "There are not enough jobs for the residents of the community."

It could be stated as, "The community has an unemployment problem," but that would not be a succinct problem statement, and it succumbs to too many interpretations. It could be that the community has a large number of alcoholics who cannot stick to a job even though jobs abound; therefore, a lack of jobs is not the problem. It could be that the resident work force is poorly skilled and that there are a lot of industries which have very little use for unskilled labor. Thus it is best to define a problem with a precise statement about what does not exist, what cannot be done or what you do not have.

2. SUBSTANTIATING THE PROBLEM

Having stated the problem, you now need to define it in greater detail and substantiate it with answers to questions like:

- How big is the problem?
- How many people are involved and specifically who?
- What numbers can be cited?
- What caused the problem?
- What would happen if the problem is not solved?
- What other efforts have been made to solve the problem?

Most of these answers can be found through the assessment of your community (Chapters I and IX). All you need to do is gather the relevant answers and arrange them for precise substantiation of the problem.

Sample Problem Substantiation: "The resident work-force is approximately 42,500 of whom 7,188 lack jobs. This works out to an unemployment rate of 17%. If 4% is an acceptable unemployment rate, some 5,500 more people presently unemployed will have to obtain jobs. These unemployed people are, on the average, 34 years of age, have had 9.5 years of schooling, and 0.4 years of vocational training. Only 6% of them possess any managerial or administrative skills, whereas 40% are laborers. In other words, the unemployed in the community are mostly low-skilled and in need of employment that requires unskilled workers and that train people on the job.

However, the employment base within the community consists of 17,150 jobs of which 23.4% require managerial-administrative and professional-technical skills, 31.4% require sales and clerical skills and only 2.4% require unskilled workers. Thus only 22% of the community work-force can find work within the community, for there simply are not enough low-skilled jobs to go around. More than 50% of the people working in the community employment base are outsiders who, with their higher skills, are constantly forcing the resident work-force out of the few jobs that could have used unskilled labor. With the job market tight all over, this trend would continue for the worse with even more community residents losing jobs. Furthermore, the personal income earned by members of the community, already alarmingly low with 23% of the households below poverty, would further decline and depress the economic health of the community. Moreso, in the absence of real jobs, trainees fail to be absorbed by mainstream employment."

We have substantiated the lack of low skilled jobs as the problem and have answered the initial questions we raised about the problem in the community.

In the process, we also raised several other issues which may be more significant than the initial problem stated. In this case, there is not only a shortage of jobs, but a shortage of jobs that require low-skilled workers and develop skills on the job. The magnitude of the shortage is such that a massive effort at creating new jobs is required, followed by some affirmative action for assuring that community residents are hired.

To fully solve the problem, all these issues will have to be considered. If we had not substantiated the problem, these contributory factors might have been overlooked. Let us now consider them in our solution.

B. Selecting the Project

As a CDO your main course for solving problems will be by implementing projects. You can undertake several projects to solve a particular problem. At this stage in the Development Process, you have already defined your CDO goals and objectives. Several possible projects that you can undertake have been identified (Chapter II). You have considered your community needs and resources along with your capabilities as a CDO. You have looked for potential financing sources to fund the projects. Your present task is to select a project for implementing from the list of possible projects in your problem-set framework.

If your project is a business venture, the process still involves the same logic as outlined in this section, however, planning and packaging business ventures entail certain technical details that will be explained separately in Section III.3.

The process for projects in general involves working out the details of each possible project and one by one eliminating them to concentrate on the one that proves to be the most feasible or efficient under the real world constraints. You will find the methods of *ex-ante* evaluation discussed in Chapter X very useful in helping you choose the right project.

You may want to brainstorm with your group, set up community panels and working committees to go over your problem substantiation and discuss all solutions until you find the one everyone thinks will work. But be sure the projects being discussed at every stage solve the problem, are possible given your resources, and will have the support of all concerned. You should be asking questions like:

- Which project will best solve the problem?
- Is the solution short-term or long-term?
- What resources will we need for each project?
- Do we have or can we get these resources?
- Will people support our project?

If your solution still holds, move along in detailing your project plan. For the purposes of illustration, choose the following sample project for a problem.

Sample Project: "Convert the vacant tire plant covering 46 acres in the community into an industrial park for new manufacturing facilities to employ low-skilled residents of the community."

Your next step is to derive the project goals and objectives, much in the same manner you formulated your community and CDO goals and objectives.

1. PROJECT GOALS

Once again, goals and objectives are the *measurable results* you want to accomplish within a specific period of time. They describe the outcome of the project and not the process involved. We shall go into the process in our methodology section of the project plan.

Let us consider the following sample project goal:

Sample Project Goal: "To construct an industrial park and substantially increase the number of jobs available to the community residents by 1980."

Notice that the goal is a statement made in fairly broad terms. It falls right out of the initial problem statement. It has not been shown how you will solve the problem, though description of the end result shows that the problem can be solved within a specified date.

An objective is much like a goal but it covers a shorter time period and is more specific. It is the smaller result which, when combined with other objectives, leads to accomplishing the project goal. Like overall CDO objectives, project objectives should specifically describe: 1) the key result you will achieve, 2) numerical measures of your progress, and 3) a target date for achieving your objectives.

However, before realistic and achievable objectives can be set, you should proceed with the designing of the project or methodology to determine what is achievable and what is not. This can only be done when you are fully aware of what is involved in implementing the project and what resources you will be able to muster. So on with your methodology.

2. PROJECT METHODOLOGY

Here you are going to determine what exactly you have to do to implement your project so that your goal may be achieved. Your methodology will thus describe:

- What tasks are to be done?
- How they will be done?
- When certain tasks are to be done?
- Who will do what?
- Why you have chosen certain methods?

The methodology can take a number of forms—including narrative statements, work plans, action steps and time/task charts. You also want to prepare the job descriptions and determine the skills required for project personnel.

As you work out the different tasks, determine what resources you require to complete them and for your project objectives to materialize. For example, taking our sample project, you could have a list of tasks that look like the following:

Sample Tasks:

Task - 1 Negotiate and finalize financial contract

Task - 2 Prepare architectural and engineering designs and drawings

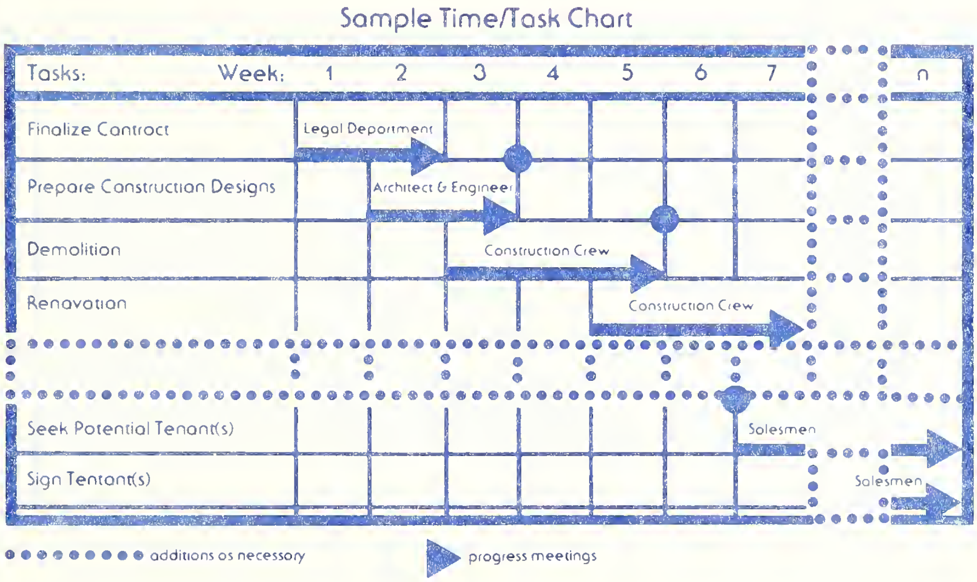
Task - 3 Prepare site (including demolition, street construction, utilities)

Task - 4 Renovate building number 1 . . . and so on.

Obviously in reality the tasks list depends on the particular situation. Therefore, for every project draw up as complete and detailed a list as possible. From such a list of tasks you can figure out the resources needed in the form of staff, contracted outside help, materials etc. For example, you would most certainly have to hire an architectural firm, a demolition contractor and so on from whom you would get time and cost estimates. Furthermore you would have to prepare the priority and sequence in which tasks ought to be completed.

All of this can be neatly accomplished in the form of a "time/task chart", as suggested in the following example:

Figure III.2



This sets out the tasks, the time they take, and when they start in relation to other tasks. For example, it's obvious that you should not have the demolition crew out before you own the property, or the electricians until framing is done, however, for most real projects timing and sequencing of tasks can become complicated, and so setting up a chart like this can be very useful. You can designate responsibilities for performing the different tasks so that all project personnel are aware of who is doing what. This chart also becomes an important tool in monitoring the project's progress so that rescheduling of tasks can be easily accomplished when some fall behind (or are ahead!) If you preserve these charts from project to project and keep a record of all changes, you will be able to plan better the next time.

Once you have worked out these details for your project you are in a position to set realistic project objectives as key steps toward achievement of the project goals.

Apart from time/tasks and objectives, you should include as part of your plan a complete list of resources you will need and also indicate how they will be acquired or provided. The list will not only prove helpful in determining what you need, but will often lead to innovative ways of getting resources, since people and organizations cannot respond to your needs without knowing exactly what they are.

C. The Budget

The budget format and cost itemization will be explained in greater detail in the next section on the proposal process (Chapter II.2. B.g). However, while preparing your project's methodology, you need to figure out and estimate costs. The initial inputs into your project emerge from your list of objectives, tasks and resources. The interplay between what dollars you need and what dollars you may be able to get begins at this point. The overall level of costs, the total amount requested in the budget, is determined by the needs of the project and the limitation set by your financing source.

D. Evaluation

You started out on the right foot by having specific and measurable objectives. The last step in your plan is to set-up a means of evaluation and to specify times during your project when you will evaluate your progress and re-adjust your plans if needed.

When you evaluate, you have to examine both quantity and quality. Your objectives can be a measure for quantity, using them as yardsticks toward your goals. The quality of your work, however, is more difficult to evaluate. Therefore, it is essential that you specify right in your project plan the criteria you will use to evaluate, the procedure you will adopt, and the information you will need to monitor.

For detailed information on methods of evaluation, see Chapter X.

III.2 WRITING THE PROJECT PROPOSAL

You prepare a project plan in order to develop a successful project implementation guide. The purpose of the project proposal, however, is to help convince *potential funders* that their money will be fruitfully used. Thus, the information you develop in your project plan fits directly into the proposal process with changes only in the manner of presentation. This section will help you to tailor your project plan into a proposal for obtaining funds.

The proposal process has three main phases:

- preapplication contact and documentation
- preparing the application
- post application follow-up

A. Preapplication Contact and Documentation

Preapplication contact may proceed simultaneously as you prepare your project plan. You can begin to interact with a possible supporter and still continue your initial investigation into what other monies may be available for

your project. Taking these steps now will help you tailor your final project design to the requirements of funders and save time later in the process. You will find Chapter VIII on Financing very useful in searching for potential sources of dollars and in determining which ones are interested in your type of project.

1. APPROACHING THE POSSIBLE FINANCING SOURCE

After picking some possible sources, you should prepare a *very brief* write-up that includes the following:

- an introduction about your CDO that emphasizes your credibility
- a summary statement that outlines the goals, objectives and scope of the project
- the estimated project cost
- a request for an appointment
- a specific time when you will call to verify receipt of the project description

This information will come from your project plan. Use your research on the financing sources (Chapter VIII) to emphasize the strong points of your CDO that the particular source may find attractive.

In making your initial approach to banks (conventional lending institutions), foundations, community trusts, and corporations, send your proposal along with a letter and call at the appointed time to verify that they received your project description.

This same letter and project write-up can be sent to federal, state and local government offices, but it can be prefaced with a telephone call to find out exactly who is handling the appropriate program. Staff in the public sector are more amenable to discussing your project with you and helping you get it in order than are staff in the private sector. This initial interaction can be very helpful, since the better prepared you are for your first encounter the better the impression you will leave.

2. THE MEETING

If you have managed to arrange a face-to-face meeting with a foundation or corporation representative (many of these organizations do *not* have the funds for an administrative staff), even if they call it a preliminary meeting, you should be ready to talk about all aspects of the project and answer almost any question. Make sure that someone who has actually been working on the project plan attends this meeting and not just CDO leaders who may have been only peripherally involved.

Do not hand the possible financier a copy of the preapplication write-up until after your oral presentation. Often busy people would rather read than discuss and the document may distract the financier from the conversation.

3. PREAPPLICATION COORDINATION

If you are seeking money from the Federal government, there is a process called "preapplication coordination". The amount of coordination required depends on the source you are approaching. In some cases only an introductory telephone conversation is necessary, while in other cases a series of meetings may be required. You will have some idea what the federal agency you have selected wants in terms of preapplication coordination by reading the program description in the *Catalog of Federal Domestic Assistance* (see Chapter VIII for more information). Besides being ready to share your well-conceived plans and ideas with any agency representative, you should be prepared to absorb a great deal of specific information about what the agency wants and requires of you. Make sure to find out whether your application must be submitted for A-95 review (a federally-mandated process in which proposals are checked by local or state committees to determine whether they comply with federal, state and local policies and plans) because it can add considerable time to the process of application approval.

State and local government offices require various amounts of preapplication discussion and interaction. You will have to check this out for each project you undertake and each source you approach. The main thing to remember when working with government agencies is that they can provide a good deal of support and assistance. For those CDO s which have frequently opposed various government actions affecting their communities, it may seem difficult or distasteful to develop and maintain an attitude of cooperation with agency bureaucrats. However, the experience of almost all successful CDO s verifies the importance of establishing a partnership with government which allows the CDO to tap available resources. A majority of the money which a CDO can utilize for community economic development can only be obtained through government channels because of formula funding from federal to local agencies. When these channels are blocked by animosities it is usually the community that suffers, so find out what an agency requires of you in order to get what you want from it.

4. QUESTIONS TO CONSIDER BEFORE YOU START THE FINAL APPLICATION

After you have made your first contact(s) with the foundation, community trust, bank, corporation or government agency which you are approaching for community development funds, you will need to answer the following questions before you push ahead with the application (If you are applying to more than one source, answer the question and compare the answer):

- Are you barking up the right tree? Do our goals and interests match those of the possible financier?

- What was the reaction of the representative you spoke to? Was the person interested and were you encouraged to submit a complete application. If so, what elements of the proposal should be stressed?

- Do you really want to move ahead on this particular project with this potential financier? Are you committed to it? Is the scope appropriate to your CDO? Is the project too large or too small to undertake? Can you deliver what they want and what you will promise? Is your internal operation adequate to handle the project; both to develop the required reports and deal with financial and other record keeping? Will the financier's requirements for evaluation and reporting drain too many resources from the project itself?

- Have you determined what type of financial assistance would be best. A loan? A grant? A contract?

- Do you know enough about the requirements of the potential financier that you can begin to develop the proposal? If there is an RFP (Request for Proposal) Do you have it? Will a presentation be required. Do you know whether the financier has money available now? If matching funds (funds the CDO has to put up) are required, can your CDO get them? Do you understand the review process (A-95 annual meeting of foundation board, etc.)? Do you have an idea of how long it will be before you know whether your proposal is accepted or rejected?

- Have you laid the groundwork within and outside of your community for this project? Is your board in favor of it? Are you sure you've developed adequate support for the project and that no antagonistic organization or individual is in a position to negate your efforts or cause rejection of your proposal without a fair review?

B. The Application — Developing A Proposal Your Potential Funder Will Understand and Support

By this time, you should have finished your project plan and narrowed down your potential financiers to certain very good bets. You are now ready to put your detailed proposal together.

The Grantsmanship Center is an organization which gives seminars all over the U.S. to people who want to help in developing project packages. The following proposal format has been adapted and in places taken verbatim from the Centers' article *Program Planning and Proposal Writing* by Norton Kiritz. If you are not given a specific format to follow by the financier (a request-for-proposal, or other guidelines), you might want to use this one.

1. THE PROPOSAL SUMMARY

The proposal summary is the first thing a potential financier will read but the last thing you will write. It should be developed after you have thought through the intricacies of your project and have a clear, concise, and specific concept in mind. The summary should describe who you are, the scope of your proposed project, and the projected cost.

2. THE INTRODUCTION: BUILDING CREDIBILITY

The introduction to your proposal tells the potential reader who you are and why you should be trusted to handle the project you describe in the proposal. Within your CDO this is an important exercise. It helps to determine how your planned economic development efforts relate to what you have done in the past, and why your efforts have or have not been successful. It is a self-appraisal that relates to the specific project you have in mind.

As discussed in Chapter VIII, potential financing sources should be selected because of their possible interest in your type of organization or your type of project. You can use the introduction to reinforce the connection you see between your interests and theirs.

The introducing section could include information on the following:

- How you got started and why; your CDO goals?
- How long you have been active in the community?
- Anything unique about your operation or the way you got started.
- Some of your most significant accomplishments as a CDO or, if you are a new organization, some of the significant accomplishments of your board or staff in their previous roles.
- Descriptions of the support you have received from other organizations and prominent individuals (accompanied by some letters of endorsement which can be in an appendix).

We strongly suggest you start a "credibility file" that you can use as a basis for the introductory section of future proposals you write. In this file you can keep copies of newspaper articles about your organization and letters of support you receive from other agency program participants and community residents.

Also, if your project fulfills larger goals of, say, national urban policy, you can "borrow" credibility from neighborhood revitalization advocates who support your activities indirectly.

What gives a CDO credibility in the eyes of a financing source depends on the values of the potential source. For instance, a traditional, rather conservative source will be more responsive to persons of prominence (like bank presi-

dents) on your board of directors, whereas an *avant garde* funding source might want to see a board of *community persons.*

Remember the credibility you establish in your introduction may be more important than the rest of your proposal. Build it! But here, as in all of your proposals, be as brief and specific as you can. Avoid jargon and keep it simple.

3. DEFINING THE PROBLEM

In the introduction you have told who you are. From the introduction the reader should know your areas of interest and expertise. Now you should zero in on the specific problem or problems you want to solve through your proposed project.

a. Problem Statement

Use the same problem statement you derived in your project plan in Section III.IA.

b. Problem Substantiation

Again, draw upon section III.IA, but this time remember not to clutter your proposal with tables, charts and graphs. If you must use extensive statistics, save them for an appendix, but pull out the key figures to demonstrate your knowledge of the problem. Make a logical connection between your CDO's background and the problem. Above all, your concern should be to convince the funding agency that the problem exists, that it is solvable within a reasonable time, by you, within a reasonable amount of money.

4. PROJECT GOALS AND OBJECTIVES

One of the concerns throughout your proposal should be to develop a logical flow from one section to the next. The introduction sets the context for your problem description, and the problem description sets the context for the project goals and objectives. These are drawn from your project plan. This time remember to put the objectives right after your goal statements and before you describe your project and methodology. The reviewer will want to measure your project methodology in the next section with your stated objectives and goals as logical outcomes of your methodology.

5. METHODOLOGY

By providing goals and objectives, you promise the reviewer certain outcomes of your project. The methodology tells him the methods you will use to achieve these. Describe the methodology the way you did in your project plan. Stress why you have chosen this particular project design. This requires that you have researched other programs of a similar nature and determined that your plan is based on a realistic appraisal of the problem and your CDO's capabilities.

6. EVALUATION

You should have already designed in your project plan the means of evaluating your project. It is essential to build your evaluation into the proposal. This way the reviewer is made aware of the planning that has gone into the project and of your willingness to evaluate your effectiveness.

7. THE BUDGET

The budget should describe the financial operation of your proposed project. It should include information about those funds you are requesting from the possible source of support, those monies or in-kind contributions the CDO can supply, and those dollars which will be paid into the project by users or clients. The CDO should include both a balance sheet on the planned income and expenditures for the project and a multi-year projection for the continued support of the project.

Different financing sources require different levels of detail in a budget. Usually foundations require less extensive budgets than federal agencies. If you are not given a specific budget form to follow, the Grantsmanship Center suggests a budget format with two components — Personnel costs and Non-personnel costs. Since most CDOs are familiar with various types of budgets, this section will be very brief.

a. Personnel

(1) Wages and Salaries

Include full and part-time staff for the proposed project and include information about staff whose time is being paid for by the CDO or other sources.

Figure III.3

PERSONNEL FORMAT

No. of Persons	Title	Monthly Salary	% Time On Project	Months Employed	Total Requested

(2) Fringe Benefits

Fringe benefit calculations should be based on present CDO policy and practice. Be sure you are fulfilling benefit requirements set up by public agencies.

(3) Consultants and Contract Services

For CDOs undertaking housing rehabilitation projects, studies of the community, the creation of an industrial park or the revitalization of commercial strip, consulting fees can run high. Frequently, specialized skills are required for a limited amount of time and no realtor or professor can be found who wants to volunteer his or her services. Determine the needs you have for such people and how much it will cost. Indicate in your budget the paid and unpaid consultants, volunteers and services for which you have contracted. Try to develop an active core of people who will volunteer time and donate services to your CDO. Any potential financier will want to know whether you have community support and commitment for your activities. Nothing speaks louder than an honest budget which shows significant donations of time and services (supply donations will be discussed in the next section).

b. Non-Personnel

(1) Space Costs

List both those for which you pay and those donated. Include the cost of utilities, maintenance services and renovations.

(2) Rental, Lease or Purchase of Equipment

List all equipment you need for the project, including typewriters, desks, drill-presses, etc., and compare the cost of leasing vs. renting or buying. You might be surprised at the amount of equipment which corporations, local businesses and others would donate if you approach them.

(3) Consumable Supplies

List the everyday items that will get used-up throughout the project. Manpower training and building rehabilitation projects consume an unusually large amount of tools and materials.

(4) Travel

This section can be divided into local and out-of-town travel and should be thoroughly justified.

(5) Telephones

Remember installation fees.

(6) Other Costs

Since projects vary considerably, this section can be a catch-all which could include postage, insurance, publications, printing, subscriptions, etc. However, many budget forms include these as separate items and you may find it useful to allocate your funding needs to specific categories.

(7) Indirect Costs

Some grants or contracts allow for indirect costs which are those expenses of operating the CDO which are not directly attributable to a specific budget category. If you have such expenses, you should check with the possible funder to see whether such an item is allowable, and, if so, how large it can be.

(8) Project Income

One source of finances frequently not considered by CDOs is the money they may be able to make from the project itself. The CDO should examine the elements of the proposed project to determine all possible ways that income could be reaped from project operation.

(9) The Final Draft and the Presentation

Once your proposal is written it is useful (but not always possible) to ruminate over it for a few days, let some "outsiders" read it and ask questions and then tighten your writing. Make sure your request is perfectly clear. The potential financier needs to know what you want and very often the request is hidden deep within the proposal. Keep jargon to a minimum and check to make sure you have not made assumptions the potential financier either will not understand or cannot agree with. A short, concise proposal will be appreciated by a reviewer. The following quote is from a Grantsmanship Center publication: "As someone once wrote in a note attached to a very long letter,'Please excuse the length of this letter, but I did not have time to write a shorter one'." You should *take the time!*

If you have to make a presentation, it is best to give your written proposal to the reviewers either well before the meeting or after the meeting, but *not* just before your presentation. Review boards vary considerably in their thoroughness. Some reviewers will know your proposal by heart if you give it to them in advance of your presentation and others will never have even looked at the title. If possible, try beforehand to get a reading on how this particular board functions. It will help you gear your presentation in the right way to reach the members of the review committee. Graphics and audio visual aids can help in getting your point across, but try not to give the impression that a Madison Avenue advertising agency is doing your public relations!

C. POST APPLICATION FOLLOW-UP

Opinions vary about the amount of clout and influence a CDO can and should try to muster in support of a proposal once it has been submitted. Depending on the source to which you have applied for financing and the approach you take, you could either help or hinder your proposal. Some foundations, community trusts or corporations have staff which review proposals and others have only boards of directors to review them. If you have established a relationship with a staff member in the course of preparing the application, an occasional telephone call to check on your proposal's progress might be alright. If a member of your CDO board knows someone on the board of directors of your potential sponsor, it might not hurt for him or her to make a personal contact and request a careful review of the proposal (but nothing more).

If your application has been sent to a federal or state agency, it is probably not particularly advantageous to write your congressperson or state legislator.

According to a Grantsmanship Center publication, all that happens when your congressperson sends a letter applauding your CDO's proposal is the following: "...The letter goes to an office whose sole job is to write letters to congresspersons. This office writes a letter back to congressperson saying 'Thank you for your interest ________________. As you know, our agency is pressing forward to solve ______________. You can be assured that X's proposal is being given every consideration for selection as part of this worthwhile endeavor.' The congressperson then sends you a rewrite of the agency's letter, making it sound like he has done you a big favor, but all that happened was a waste of several people's time and taxpayers' money."

On the local government level, political pressure may be very effective in some towns and disastrous in others. The CDO should try to determine what the experience of other community groups has been before it decides whether or not to apply such influence. While the attempt to understand the proposal review process is important and discussions with those agency staffers who helped in the development of your application may not be harmful, trying to use political pressure may cause moe harm than benefit. Use your own experience and judgment to decide what you should do.

1. The Decision

If your proposal is approved, begin negotiations of the contract with the financier. Depending on the situation, the scope of the project and other factors, this step can be a simple or an arduous task. The final result should be an agreement which all parties understand and under which the CDO can work. Get a good feeling for the expectations the sponsor has for this project and make sure you are not leaving issues open which could cause trouble later on.

If, after all this work, your proposal was not approved, it is very important to find out what went wrong. Government agencies, more than private ones, are generally careful to evaluate proposals and compare them so they can list the reasons why one application was chosen over another. Although having a proposal rejected is a painful step in the learning process, it can lay the groundwork for a future relationship with a public agency or financier. Make sure they remain aware of your interests and contact you when appropriate funding becomes available. It is possible that a proposal rejected by one may be accepted by another. So do not just throw it away. Submit it elsewhere.

III.3 PREPARING BUSINESS PLANS AND PROPOSALS

As a CDO, most of your economic development projects would involve developing business ventures. In Chapter II, as part of your investment strategy you considered the extent and nature of your business investments. Like other projects, packaging a business venture requires the same procedural logic as explained in the preceding two sections. This section, however, highlights the principal technical components of developing a business venture and the necessary sections of a business plan as detailed in the *Business Packaging* manual published by the U.S. Department of Housing and Urban Development. The manual is "... intended to serve as a guide and reference assisting professional business packagers in understanding and discharging business packaging functions. It outlines business packaging functions in sections on: 1) Evaluating the E/O Entrepreneurs/Operator, and the Business Opportunity, 2) Developing the Business Plan, 3) Opening the Business, 4) Follow-up and Assistance; and, in a section on Technical and Financial Assistance, it describes the basic private and public sector resources packagers can use."

A. Components of a Business Package

The HUD manual identifies four essential elments of a business plan:

- a market study
- a sales plan
- a technical and operational plan
- a financial plan

The market study provides a preliminary answer to the question: Are there customers for the business? The sales plan answers the questions: What sales volume will the business generate? What gross margin can it achieve? The technical and operational plan deals with the question: How can the business operate to generate estimated sales? The financial plan answers the question: Is the business financially feasible? The business package reorganizes and summarizes the data and documents produced by doing the study and plans. The

package differs from a financing application in that it is not constructed according to procedures and forms used by a particular funding source. However, the package serves as the basis for making any such application.

To complete the business package, you should compile the following items drawn from or developed for the *Market Study*, *Sales Plan*, *Technical and Operational Plan* and *Financial Plan:*

- business description and product definition
- market description and analysis of market capture strategy
- location description
- physical facility description
- physical facility legal documents
- layout and flow plan
- fixtures, furniture, machinery, and equipment list
- fixtures, furniture, machinery and equipment legal documents
- inventory list
- labor force and supervisory plan
- management and administrative personnel plan
- professional services and technical assistance plan
- organization and ownership description
- acquisition or franchise documents
- financial statements and analyses

1. MARKET STUDY

You do a market study to estimate roughly what sales volume the business can achieve. Estimates should cover monthly and annual first year operations and annual operations for the second and third year. The market study provides the basis for a preliminary answer to the question: Are there customers for the business? If virtually no market exists for what the business sells, then clearly the business is not feasible. If a thin or tight market exists, then the business is marginal. If a sizeable market exists, then the business may be feasible. Whether or not it is actually feasible depends on the other factors evaluated during the packaging process. You should make two sets of sales volume estimates. One set should be at the *expected level of sales.* The other should be at a more conservative level. Both sets must be used to measure economic feasibility. To complete the market study, you need to know:

- what the business sells
- trade area
- trade area sales volume — market
- trade area customers
- trade area competition
- keys to competitive success
- market capture strategy
- probable customers
- estimated sales volume

2. SALES PLAN

You devise a sales plan to arrive at refined estimates for sales volume and the cost of goods sold. The estimates should cover monthly and annual first year operations and annual operations for the two years following. The sales plan answers the questions: What sales volume will the business generate? What gross margin can it achieve? What advertising and sales promotion plans to support the sales plan are necessary? What amount of raw materials, merchandise and/or supplies inventory are required? The sales plan both summarizes and determines the entire economy of the business. Therefore, it is the basis for determining and planning the following:

- physical facility to house the fixtures, furniture, equipment, employees, inventory, goods produced or merchandise displayed
- amount of fixtures, furniture, machinery and equipment required
- number of employees with certain capacities, skills and experience to produce goods, sell merchandise, or perform services and to supervise the production, sales or service process.

The difference between sales volume the business generates and its cost of goods sold must represent enough dollars to pay operating expenses and provide a reasonable net profit return. You should devise two sales plans. One plan should reflect the "expected" sales volume. The other should reflect a more conservative estimate. Both plans are used to measure the basic economic feasibility of the business. To devise these sales plans, you must know:

- what specific goods, merchandise and/or services the business produces or sells
- what its pricing policy and prices are

- what its advertising policy and advertising are
- what customer conveniences it provides
- how much inventory it carries
- how often inventory turns over
- who supplies inventory
- how much it pays for inventory — the basic cost of goods sold
- how much waste, pilferage, rejections, returns and other factors add to the cost of goods sold

3. TECHNICAL AND OPERATIONAL PLAN

You draft a technical and operational plan to implement the sales plan. The technical and operational plan answers the question: How can the businss generate estimated sales? Because it determines eventual success or failure, drafting the technical and operational plan is the guts of the packaging process. At this point you know only one of the major costs involved in opening and operating the business, the inventory cost. You also know what the general nature of the business is. The nature of the business indicates much about the technical know-how required, but it does not indicate the know-how needs for a secific business. The technical and operational plan describes and dictates the capital and know-how requirements for this business. To draft the technical and operational plan, you must know the following items the business requires and the cost of each:

- physical facility
- layout or flow plan
- fixtures, furniture, machinery and equipment
- labor and supervisory force
- management and administrative personnel
- professional services and technical assistance

You do not make simple yes or no decisions to establish requirements. Determining requirements does not mean deciding if something is necessary. Often it means identifying possible alternatives, exploring promising ones, examining trade-offs among the most promising alternatives, and finally selecting one. However, decisionmaking does not end here. Each requirement implies a cost and every cost affects total financing needed or annual expense or both. Total cost must be a sum which can be financed. Annual expenses must permit a reasonable profit on sales. So every technical and operational plan decision is open to question until all decisions are made, and you must

investigate all requirements simultaneously. As each question is resolved, you must consider its impact upon previous decisions and the impact of previous decisions upon it. Thus, the technical and operational plan represents a complex, somewhat circular set of interrelated alternatives.

4. FINANCIAL PLAN

You formulate a financial plan to organize and analyze all the sales estimates and cost data developed and determined for the "Market Study," "Sales Plan" and "Technical and Operational Plan" discussed above. The financial plan answers the question: Is the business financially feasible? It shows whether sales income is enough to justify the financial investment and cover the costs involved in opening and operating the business. To formulate the financial plan, you must know:

- dollars required to open the business and their source
- projected sales income
- cash required to pay operating expenses and pay back financing principal
- sales volume required to cover cash outflows
- opening assets, liabilities to creditors and equity contributions of investors

You use five tools to compile this information and structure the financial plan:

- statement of financial requirements
- income statement
- cash flow analysis
- cash break-even analysis
- balance sheet

You must understand what these financial statements and analyses are. When you do, you can systematically apply these tools to a financial plan for the business.

a. Statement of Financial Requirements

The Statement of Financial Requirements sets forth the financial outlays, expenditures and reserves necessary to begin business and the projected sources of financing. Start-up requirements include funds for purchasing fixed assets, prepaid items and deposits, pre-opening expenses, purchasing inventory and

supplies plus the dollars needed for working capital. Assessing the financial requirements of the business correctly is crucial to maximizing its chances for success. Undercapitalized businesses are businesses designed to fail. At a minimum, the business must have sufficient funds to cover projected cash deficits. However, it is good practice for you to supplement this amount with sufficient funds for two to three month's operating expenses or all expenses projected to occur before significant sales income is generated.

b. Income Statement

An income statement reports how profitable a business has been. A pro forma income statement predicts how profitable a business will be. It shows how much money a business cleared or will clear over a given period of time. Most small businesses are not worth packaging unless the pro forma income statement indicates profitable operations by the end of the first year. There are exceptions to this rule, however. These exceptions are ventures which require large start-up capital expenditures and even if the business comes within this category, you should be able to realistically project profits for the second year. The primary motive for founding an enterprise may not be making money for its own sake; it may be providing employment or services to the community. However, to serve any purpose related to the economic vitality of the community, a business must be profitable enough to repay its debt and grow. You should not devote time, energy and resources to developing businesses which do not have this potential.

Generally, if the pro forma income statement does not predict sufficient annual profit to return the owner $10,000 in salary and/or net profit after taxes, the business should not be started. On the other hand, it may be possible to restructure the business package so as to produce at least this minimal level of return. Restructuring amounts to expanding sales or reducing expenses. Expanding sales might involve changing the product, labor force, location, customers or customer services. Reducing expenses might entail cutting the labor force, salaries and wages, rent or customer services. At some point the the restructuring process ends and the process of packaging a new and different business begins.

Most sources of financing require pro forma income statements for the first three years of operation. Second and third year projections are reasoned extensions of first year figures. Normally, as sales volume increases, the expenses tied to generating sales also increase. However, expenses do not always grow at the same rate as sales. Some costs of doing business remain fixed or change very little. For example, in most manufacturing businesses, payroll grows at a rate similar to sales, but office expenses and the cost of professional services do not. In most retail businesses, advertising and promotional expenses vary directly with sales, but payroll and rent rise at a much slower rate.

In addition to the three annual projections you should project income statements for each of the first 12 months. Doing monthly calculations clarifies the relationship between sales and variable expenses and sales and fixed expenses. Although financial institutions ask for only one level of sales projection, it is a good practice to develop two levels of sales projections, the one set of projections showing the "expected" level of sales and the other showing

a more "conservative" level. The more conservative set helps you anticipate and work out solutions to the problems associated with lower sales. When the projections are completed, you know how much the business can and must spend to achieve and operate at a given sales volume.

c. Cash Flow Analysis

A cash flow shows how much of the cash generated by the business remains after both expenses (including interest) and principal repayment on financing are paid. A projected cash flow indicates whether the business will have cash to pay its expenses, loans, and make a profit. Cash flows can be calculated for any given period of time. You should project annual cash flows for the first three years of operation and monthly cash flows for the first year of operation. Both sets of analyses are crucial in determining if the business can operate without additional cash injections.

To do a simplified cash flow analysis for any time period, the following calculations are made:

- Check the income statement for net profit and depreciation. Add the dollar amount for depreciation to net profit. Depreciation is a non-cash expense and should not be subtracted when calculating cash generated as it is when calculating net profit. Add depreciation and net profit to find cash generated.

- Subtract financing principal repayments from total cash generated. Do not subtract interest payments because they have already been included as expenses on the income statement.

- Analyze the net cash flow. If the net cash flow is a negative number, the business does not have sufficient cash to cover its expenses and repay its loan. If the net cash flow is a positive number, it should be examined to determine whether it represents sufficient cash return to the owner as well as sufficient reinvestment funds needed to make a business grow and achieve a projected sales potential.

The calculations do not result in an absolutely complete and accurate statement of cash flow from an accountant's point of view. The cash flow analysis process recommended is simply and generally adequate. If you wish to do a more precise cash flow analysis, you should recalculate a number of items on the income statement to reflect actual in-flows and out-flows of cash. To make a more precise cash flow analysis, substitute:

- "dollars received for sales" for "sales"

- "dollars paid for purchases" for "cost of goods sold"

- "dollars paid for expenses" for each "expense" listed on the income statement

- the total of "dollars received for sales" minus "dollars paid for purchases" and "dollars paid for expenses" for "net profit"

Use the new total in place of "net profit" in Step 1 of the above calculations. The more precise calculation of cash flow is especially valuable if the business has a large percentage of credit sales or is operating on a thin cash margin.

d. Cash Breakeven Analysis

As used in the handbook, the breakeven point means that level of sales which generates neither a positive nor a negative net cash flow after interest and principal payments have been made. In other words, when a business breaks even, it has a zero net cash flow. The breakeven point can be calculated for any given period of time.

- Check the income statement and cash flow for all variable cash costs. The cost of goods sold is one of the chief variable cash costs. Variable costs are those which change in proportion to variations in sales. As such, every variable cost may be expressed as a percentage of sales. Figure out what percentage of sales each variable cost is. Add the percentages figured to obtain a total percentage of sales for variable costs.

- Use the following formula to determine the breakeven point:

$$\frac{\text{Dollar Total for Fixed Costs}}{\text{(100\% of Sales) less (\% of Sales for Variable Costs)}} = \text{Break-Even Point.}$$

For example, if:

(1) fixed costs equal $10,000; and

(2) variable costs equal 90% of sales; then

(3) 100% of sales minus 90% of sales equals 10% of sales; and

(4) $10,000 divided by 10% equals $100,000 — therefore, $100,000 equals the breakeven point.

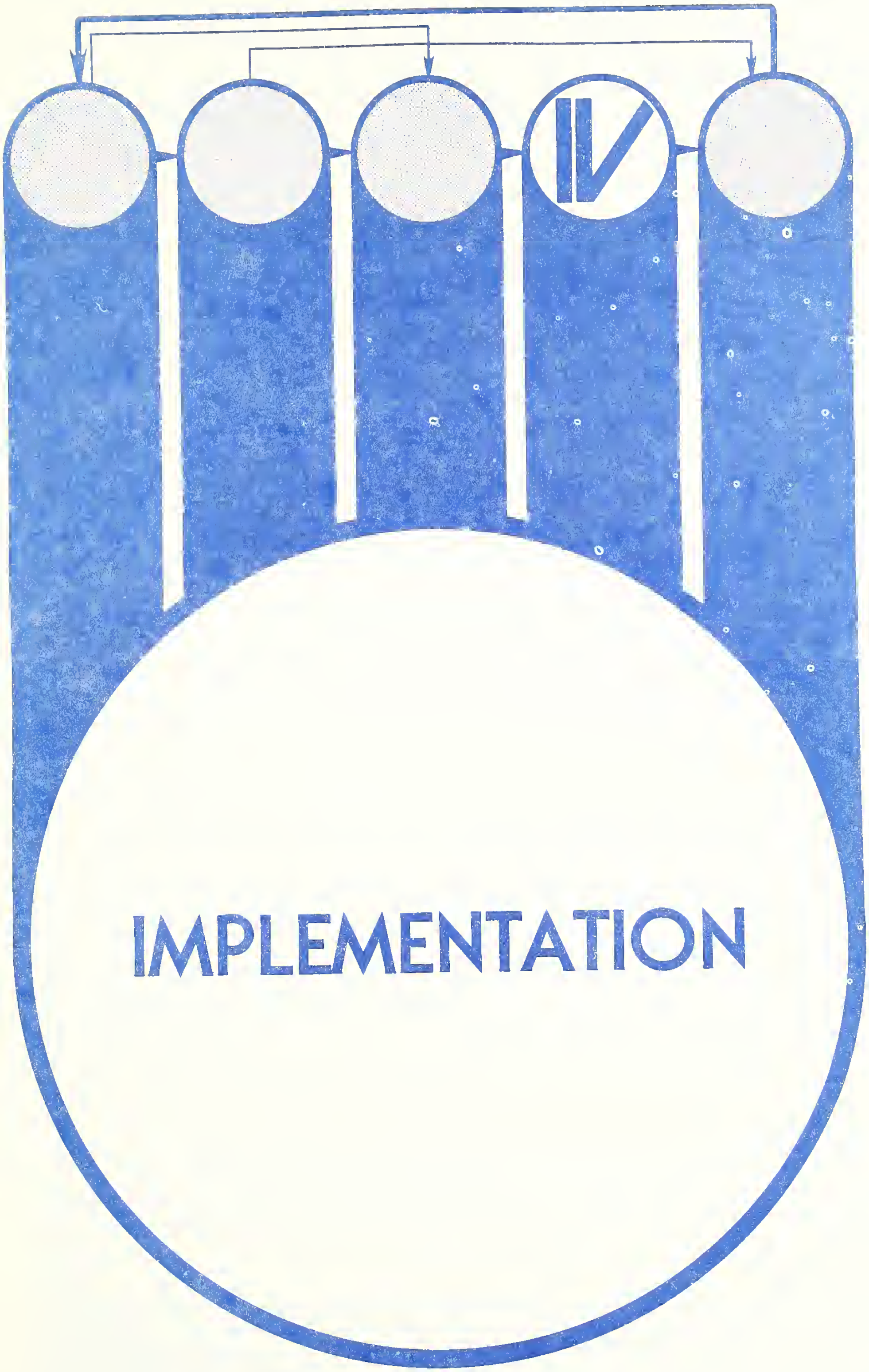
The breakeven point can also be viewed as a ratio. In other words, the ratio of "Fixed Costs" to "100% of Sales" minus the '% of Sales for Variable Costs' equals the ratio of "Break-even Sales" to "100% of Sales." Or, as in the example, the ratio of $10,000 to 10% equals the ratio of $100,000 to 100%. In determining the breakeven point above, the packager and E/O are solving the following ratio and proportion problem:

"$10,000" is to "10% of Sales" as
"$X" is to "100% of Sales".
"$X" equals "$100,000" equals the
"Break-Even Point".

(v) Balance Sheet

A balance sheet shows a businesses' assets, liabilities and equities on any given date. An opening balance sheet describes the financial status of the business the day before it opens. Half of the balance sheet lists "Assets"; the other half lists "Liabilities" and "Equities". Assets equal liabilities plus equities. Liabilities are usually divided into two categories—current and long term. Current liabilities are those debts the business owes within the first year of operation; long term liabilities are debts the business owes over an extended period of time.

With two exceptions, all the items and dollar figures listed on an opening balance sheet may be taken directly from a statement of financial requirements. One exception is the "cash" item listed under assets; the second exception is the "Others" item listed under equities. The statement of financial requirements reflect equity investment, but it does not show equity investments by partners, stockholders and other individuals.


IV
IMPLEMENTATION

CHAPTER IV

IMPLEMENTATION

CHAPTER SUMMARY

The previous chapters *prepared* you for economic development. This chapter leads you into the actual *delivery* of the CDO product: implementing economic development. The CDO must combine human talent, community and outside funding into an operating framework. Actually, operationalizing this gets into the realm of management and organization which will be covered in detail in Chapter VI. This chapter, however, presents the basic issues involved in the process of implementation and the options and variations in the process that are available, depending on the nature of the CDO's investment strategy.

HOW THE CHAPTER IS USEFUL

No matter how carefully you have anticipated every possibility in your planning efforts, there is always that unknown entity involved in actual implementation. This chapter helps you anticipate and prepare for this eventuality by discussing the aspects of implementation you have to deal with on a day-to-day basis, such as: staffing, organizing, decision making, policy setting and managing of finance. A consideration of the variations and options available in handling the operation of all these functions can also serve as a helpful guide in making your choices in a contingency approach (Chapter VI).

IV.1 THE IMPLEMENTATION PROCESS

If you have gone about systematically "packaging" your project, have prepared a carefully thought out project plan and secured adequate finances for it, you have taken care of the most important aspects of actually implementing the project; for, as already noted, *the project plan is your implementation guide.*

The best security against the uncertainties of implementation is to adopt a "contingency" approach toward operationalizing the project. This will be returned to later in this Chapter and in Chapter VI. First, however, certain more tangible aspects of implementation such as staffing, organizing, decision making, policy setting and managing of finances are discussed. Then a more general discussion follows on the day-to-day functioning of your CDO as you go about implementing various projects.

The primary pre-requisite to any implementation effort, of course, is the overall organization structure of the CDO. The community organization evolving into an economic development organization is not starting from scratch. There probably exists a core group of community people who have been involved in services. It is from this group that the CDO evolves. Like any other expanding organization, the CDO is concerned about what formal structure to adopt. There are no hard and fast answers, no magic formula or universally applicable organization structures, leadership styles, or management controls that may be readily adopted. There are, however, three basic legal structures available to CDOs which are explained in detail in Chapter VI. (The Non-Profit Corporation, the For-Profit Corporation and Cooperatives are described, including explanation of the advantages and disadvantages of each). However, more often than not, depending on the complexity of your goals and projects, you have to devise a hybrid structure. It is essential that you obtain competent legal counsel in fully analyzing and formulating your formal legal structure.

Within this legal framework, internal issues and objectives dictate your operational organization which again is discussed later in Chapter VI. Operationalizing your total economic development effort depends on the particular approach you may have chosen while setting up your organizational strategy. In Chapter II, this total effort or Investment Strategy was viewed as culminating in several projects or programs broadly categorized as Non-Profit Services and For-Profit Ventures. Within these two categories of projects are several operational options which may be summarized as follows:

Figure IV.1

	Start-Up	Acquisition
Total Control	*	*
Part Control	*	*

The determinants of making these choices were explained in Chapter II but once the choices are made, they in turn become the determinants of the implementation process to be followed. For example, the operational set up of a non-profit project is different from that of a for-profit project: similarly, the set up of a wholly owned project differs from that of a partly owned project. The major issues that are basic to the implementation process have, therefore, to be considered in light of these options.

It is useful now to take up "organizing" as the first issue in implementing a particular project.

A. Organizing a Project

You are starting here with a "packaged" project. To emphasize once again, the project plan is your implementation guide. You have the goals, objectives, methods and resources all specified. Organizing now makes it possible for people to work effectively toward accomplishing the project objectives. The organizing function thus has to create the roles and relationships that facilitate goal directed activities, the grouping of jobs into a framework for direction and coordination that facilitates the completion of plans.

For most CDOs, the entire organization is structured around the projects that get funded. However, as they evolve and become more experienced organizational units are divided so that each has a dissimilar set of duties and responsibilities. The broad division is along the lines of non-profit service orientation or for-profit business orientation, within which units may be organized according to "functions" or "programs" as explained in Chapter VI. As units deal with projects within their particular orientations, the central questions for each unit are: What additional functions and activities will have to be performed to implement this particular project? What jobs or positions will be necessary? How should these positions be linked together with clear lines of authority, etc.?

B. Staffing the Project

Once a project gets funded, depending on the complexity of the project and jobs to be done, new staff may be required. The required jobs have already been specified in the job descriptions prepared in the project plan. But it is an unusual situation where staffing actually fills out these descriptions. More often than not, you will be assigning people already on the CDO staff. You can best do this through a management personnel audit similar to the one described in Chapter I, when you assessed your organization's present status. This means that you list the skills and experiences of the persons in your organization and match them with those duties, responsibilities, authorities and skills specified in the job descriptions. However, when people are not available from within the organization, you are faced with the option of hiring community people or people from outside the community.

There are certain trade-offs between staffing with personnel from within the community vs. staffing with those from outside. If experienced and skilled personnel are not available within the community, it may be better to staff initially with qualified outsiders even at the expense of negative community reaction. For example, in starting business ventures, the risk of failure is high even with seasoned entrepreneurs running them. Using inexperienced persons to start and run a business adds even more to the risks. Evaluating and selecting entrepreneur/operators is a highly technical operation as you have seen in Chapter III. Therefore, it is better left to mature CDOs with established track records to train personnel from within the community to operate business ventures.

Another special problem you may face is that of rapid turnover of personnel in paid positions. Good people may leave because they can find jobs at higher pay elsewhere. Therefore, it is very important that you prepare personnel costs (salaries, benefits, etc.) with great care in your project budget so that remunerations are commensurate with required qualifications. Even then, the salaries your CDO can pay may not match those available in other places. Thus, you can see the importance of keeping records of personnel who can be advanced, or trained to be ready for advancement, when members leave the organization. This process is explained further in Chapter VI as "management succession systems".

Especially once your CDO starts getting into larger projects, you should develop some type of organized personnel policies and have some staff on board with personnel management skills.

C. Directing the Project

All the effort put into finding and assigning project personnel, organizing and establishing roles may be wasted if the human and motivational dimensions in the relationships between supervisors and subordinates are not considered on a day-to-day basis. In other words, if interpersonal relationships are not managed through the exercise of leadership and direction, achieving planned objectives may prove impossible.

Having probably started as an informal grass roots community organization, you may find the directing functions especially difficult to perform. Most interpersonal relationships tend to be informal, and lines of authority and communication may be very difficult to establish. In the beginning when you have few projects and a small staff, this informal flexibility may well be an advantage. However, as your CDO grows and you take on larger projects with diverse staff requirements, the relationships would become complete. Your personal structure may become a hybrid mixture of sophisticated professionals, expert consultants, community volunteers, etc. Then you have to cope with differences in educational level, social custom, and even in the use, interpretation and understanding of words.

Given these dynamics, directing projects becomes a sensitive task. You want to adopt a democratic approach and find answers through consensus. Depending on how much input the staff members have had in the planning and design stage of the project, you would find it easy to explain tasks to be performed and motivate people in their respective roles.

IV.2 MONITORING PROJECT PERFORMANCE

Monitoring is the crucial key to adapting your project plan to contingencies. It is through monitoring the results achieved at each stage that necessary changes may be affected. Even if the plan works like clockwork, the knowledge of targets achieved and what needs to be achieved next boosts staff morale and performance.

A key step in monitoring is comparing current performance with desired standards or targets. Therefore an accurate description of current performance is essential. Once information about current performance has been obtained, it should be compared with the exact objective/targets specified in the project plan.

The ultimate purpose of evaluation is not to discover how well your project is succeeding but to revise it so that it can succeed even better. Consider some specific monitoring procedures. The foundations of project monitoring were actually laid in your project plan. The only new ingredient needed is current information about actual performance associated with the project.

A. Recording Performance Data

Data which is necessary for keeping track of current project performance should be incorporated in the project inventory of goals and objectives. The prepared "time/task charts" (Chapter III) should be marked off with the objectives and matched with results and key dates as implementation proceeds.

B. Specific Standards or Targets

The standards or targets used in evaluation represent specific values of the indicators mentioned above at which you as a CDO aim to perform. Standards are certain levels of performance which are regarded as satisfactory or acceptable by those knowledgeable in the field. In some cases, targets will be way below standards or vice-versa depending on the sophistication and maturity of your CDO. However, in the long run the targets should be progressively advanced as you gain experience from project to project.

C. Importance of Quantification

The importance of delineating measureable and quantifiable objectives was stressed in project planning. In recording project performance, the benefits of having measurable objectives will become apparent. If some goals cannot be translated into quantitative indices, it may be possible to break them down into sub-objectives, for which quantitative indices may be derived.

D. Importance of Intangible Factors

The overall monitoring effort must be based on quantifiable measurements, but cannot be limited to such measures alone. For example, several indicators will be used each having different units which cannot be directly added to determine overall performance. Thus, overall monitoring must be based on more general or abstract measures.

Possibly a weighted index can be constructed to summarize the combined results of indicators which use varying measures. For example, a weighted index might be constructed based upon changes in the unemployment rate, median family income and the proportion of families with income under $3,000. Such an index could be used as a rough indicator of the overall input of our sample industrial park project described in Chapter III.

EVALUATING THE DEVELOPMENT PROCESS

CHAPTER V

EVALUATING THE DEVELOPMENT PROCESS

CHAPTER SUMMARY

There are three general types of evaluation – project evaluation, process evaluation, and impact evaluation. The last is perhaps the most difficult. The various methodologies important to project evaluation are discussed in Chapter X, while process evaluation and impact evaluation are discussed here.

Considerable effort has been made in Part 2 of the Handbook devising an idealized scheme within which CDOs are expected to develop their goals and implement them through projects. Yet, over a period of time, CDOs have to monitor their progress in terms of the growth of their organization and the intended impact on the community.

Thus this chapter deals with the fundamental question, "How well is the CDO doing its job?" Methodologies are discussed that may aid in answering this question.

If it is genuinely concerned about trying to serve its community better, the CDO should be interested in process and impact evaluation. This implies a willingness to reconsider its goals, as well as changing the organization's staff, methods of making decisions, and choice of projects. Besides the uses of evaluation for the CDO's internal needs, there is the large issue of *accountability.* Whenever a CDO gets money from the government, it must be prepared to justify its expenditure. There are really two aspects of accountability - the accounting side and the efficiency side. The accounting side is concerned with ensuring that government monies have been allocated within the law and a proper record kept of transactions. The efficiency aspect, however, is a far trickier question. From a government agency's point of view, there are many competing CDOs that are eligible for limited resources. Naturally the agency will want to provide funds to the CDO that has not only utilized its money best in meeting community needs and satisfying the agency mandate, but also has documented this success through well kept records.

HOW THE CHAPTER IS USEFUL

Often the notion of evaluating a CDO evokes considerable anxiety among the government agencies that monitor them and the CDO staff. The reasons for this anxiety are quite understandable, since as pointed out in Part 1, CDOs are a hybrid of a profit maximizing business and public sector organizations. Unlike project evaluation, no sound methodology has been developed that allows an organized evaluation of a CDO to take place. This does not mean, however, that CDOs cannot themselves take the lead and develop their own

measures of performance. This chapter describes evaluation methods that can help the CDO improve its performance as well as upgrade its image. Before you start your own evaluation efforts, however, you are forewarned, to find out the specific criteria that your funding agency uses.

V.1 IMPORTANT ISSUES IN CDO EVALUATION

This chapter takes for granted that your CDO has formulated goals and objectives tied to community problems, and that it has implemented some of these projects. Most important of all, it is presumed that you are now willing to look back in order to improve CDO performance in the future. In this case there are three types of questions you will want to address:

1. Are your organizational goals correct in terms of: a) meeting community needs current or long run (did you perceive community problems correctly?), b) Implementability within existing constraints and resources (see Section II.1 for the definition of these terms as used in the development process).

2. Given specific goals and objectives, have you utilized your resources efficiently in implementing them? Specifically: Are your strategies appropriate? Could you have achieved more by utilizing some other set of strategies; or, did you seem to be headed in the right direction in terms of our goals and strategies, but could not implement the projects well? In this instance, the important issues are: Was the organization for the project bad? (Chapter VI) Was it a problem of management? Or did your staff lack competency in technical or political skills?

3. Alternatively, given the resources at your disposal, in the most general sense, could you have created greater impact in terms of your goals and objectives? The important questions to be asked here are similar to those raised in (2) above.

In addition there are a host of other concepts such as incidence, the time of impact, etc., that often are just as important. These concepts are also used in project evaluation, and you should read Section X.2 to understand what they mean *before* you attempt any self evaluation.

The CDO must also decide whether its level and type of community involvement is adequate or too constraining. Usually, involving the community in great depth slows the process of implementation, while lack of involvement leads to incorrect goals and strategies for the organization.

Before carrying out any sort of evaluation effort, you must have some benchmark which serves to determine success or failure. This is referred to either as the basis of the evaluation or as the criterion for the evaluation.

A. Evaluation with Respect to What?

There are three types of bases for an evaluation:

1. *Evaluation with respect to an assigned goal.* Most social service evaluations are of this form. Here, the evaluator looks at a CDO's goals, and without judging the merit of these, checks if the CDO is actually meeting them. Thus, if a CDO claims that its goals are to rehabilitate homes and will rehabilitate ten this year for a million dollars, all one can do is to determine if in fact ten homes were rehabilitated for the million dollars given the CDO. This contrived example points out the pitfall of this method, in that the goal does not seem to be very efficient.

2. *Evaluation with respect to a particular standard or norm.* Suppose someone in Washington decides that for a million dollars a CDO should rehabilitate 100 homes. Then if a CDO has only rehabilitated 80 homes it has not been efficient. The CDO comes back and claims "Homes on the West Coast are in worse shape than the homes you Easterners are used to." What can you say, but that the CDO should have designed its original project better.

3. *Evaluation based on comparison.* Now you might turn to evaluating a business. Suppose you have a business that makes insulation for homes, and you want to evaluate its performance. You first check to see if the business is profitable. Then a good question to ask is, Is it profitable enough? After all, it could be making $1 a year or $1,000,000 a year. Suppose you find that the business is making 20 percent after taxes on shareholders equity. This looks very good until you discover the average for the particular industry that year happens to be 40 percent. Is the firm doing poorly? If you selected as the basis for your evaluation the average for the industry, the business has failed the evaluation test. However, if the basis were a norm of long term savings account interest rate, the firm would be a success. Now suppose the manager tells you his goal was 10 percent return on sharehold equity and that instead he exceeded his target 200 percent and now he wants a large bonus. Pick your basis and you have your answer.

B. Evaluation and CDO Evolution

It was pointed out in Chapter II that of the four strategy characteristics open to a CDO, a new or evolving CDO would most likely pick revenue generating or community advocacy ones. As this CDO evolved over time it would eventually be involved in business development. As the CDO organized and developed its capacity to meet long range goals, it might build a base of community support but yet not show grand economic benefits.

It is unfortunate that this kind of CDO performance is rarely accepted, even though in the private sector a company is well respected if it does not declare a dividend for three or four years while financing its growth internally.

C. Evaluation and Social Indicators

Ideally a CDO should be able to evaluate its development process by monitoring socio-economic conditions in its community and noting any changes. This would require the development of elaborate social indicators. Social indicators are statistics that provide useful data on the well-being or problems of a community. The unemployment rate or the poverty rate in your community are examples of social indicators. Another one you should be careful about is the average income of families and unrelated individuals. Such statistics are purported to be key determinants of the prosperity of the residents of a community.

These social indicators suffer from some problems common to almost all social indicators. To be really useful, a social indicator should offer the following attributes:

1. It must have some underlying conceptual framework or theory that motivates the need for the social indicator and ensures its usefulness. All three indicators identified above spring from economic theory.

2. It must measure what it claims to measure. The poverty rate has been criticized on this point. It depends on a definition of poverty and is thus capable of political manipulation, as has been evidenced in the past.

3. It must be accurate so that you can note any changes in objective conditions. For instance, if a large source of employment in a community closes the unemployment indicator should show a jump; otherwise it is not very useful.

Although it has been noted that almost all social indicators have their failings, some are worse than others. A good example of a bad indicator is the FBI's Index of Crime. It lumps together everything in one number from murders to muggings to car thefts. Thus, for example, even if in two communities this index were the same, say 150, it says very little about the crime situation. One community could have 100 murders and 50 car thefts while the other may have 50 murders and 100 car thefts. According to the crime index both communities are equal in terms of crimes committed, although our common sense tells us murders are far worse than car thefts.

All these issues in evaluation assume importance when we consider the methods useful to evaluating your CDO's performance.

V.2 METHODS TO EVALUATE THE ECONOMIC DEVELOPMENT IMPACT OF YOUR CDO

A. Selecting A Basis for the Evaluation

Before starting any evaluation of your CDO you have to decide on the basis for the evaluation. In Section V.1 three types of bases were discussed:

- Evaluation with respect to an assigned goal
- Evaluation with respect to some standard or norm
- Evaluation based on comparison

The first one requires you to set up a number of goals that your CDO wishes to accomplish in its community. These goals can then be turned into measurable objectives to serve as the basis for the evaluation.

The second type of evaluation is more difficult, since in community economic development there are, strictly speaking, very few standards or norms. It is generally accepted, however, that two important criteria are the extent of employment and income brought into the community.

To do full justice to the CDO, employment and income must be broadly defined. As was pointed out in Subsection II.4.C, when a project is implemented, three types of employment and income are generated:

- *Direct employment or income* from the labor force working on the project or venture
- *Indirect employment and income* created in industries providing the industry with goods and services
- *Induced employment and income* is created by the purchase of additional goods and services by the labor force directly or indirectly employed by the project and project suppliers

There is an added dimension to income generation. Suppose a CDO puts a heavy emphasis on housing rehabilitation and at worst employs all labor from outside the community. Now it is possible to consider the improved housing services provided as a form of income. The argument runs as follows:

> People want better housing, and there are two ways to get it: 1) by increasing income and buying better housing or renovating their existing structure; or 2) by the CDO upgrading their existing homes under contract. Under some assumptions, the CDO's housing rehabilitation work is equivalent to the increased income that would be allocated to the home. This principle can be generalized to other types of projects as well.

B. Measuring Economic Development Impact (Impact Evaluation)

Once you have selected a basis for evaluation, you will want to determine the aggregate impact of the CDO on the community. This will require you to derive indicators to measure this impact. You can get a good start on measuring impact by adding up the wage and income impact of all projects run by the CDO. See Chapter X for further details.

This form of measuring impact may be seen in two projects implemented by TELACU. The first one involves a Los Angeles CETA contract. Its measures of impact were:

Objectives

To provide On-the-Job Training (OJT) under Title I to parts of the City of Los Angeles.

Sources and Amount of Funding

City of Los Angeles $230,400

Indicators of Economic Impact

Employment impact

Administrative Employment	=	6
Individuals placed on OJT	=	235
		241

Wage Impact*

Approximate annual administrative gross wage	=	$ 58,000
Total Wage Impact	=	$544,600

However, there are other programs not amenable to this simple calculation. Take for instance the work of the Senior Citizen Program of TELACU:

Senior Citizen Program

Date Started: July 1975

Goals: To provide social services to the senior citizens of the community through non-CSA public funds

This program includes three components -- Senior Citizen Transportation, Senior Citizens Food Co-op, and the Handyman Program. Each component impacts a different aspect of services to the senior citizens.

Senior citizen transportation provides free Dial-a-Ride transportation to the elderly. Thus, it provides an invaluable service in allowing them to reach medical and other social services.

The Senior Citizen Food Cooperative purchases food such as vegetables, canned goods, etc., in bulk and thus, lowers the food bill of the local senior citizenry.

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*This wage impact was calculated as follows: The number of people placed in jobs that still held jobs at the end of 90 days were assumed to maintain their jobs for a period of 20 weeks. Then the average wage offered by the employer for the particular program was calculated for the twenty week period. This figure was multiplied by the total number of people that were assumed to have held jobs over the 20 week period.

The Handyman Program provides free minor repairs to senior citizen owner occupied homes.

Sources and Amounts of Funding:

Senior Citizen Transportation has normally been funded annually for $127,000 by the State of California. Its continued funding is in doubt.

The Senior Citizen Food Co-operative is funded annually for $35,000 by the County Department of Agriculture.

The Handyman Program is funded annually through the Los Angeles County Department of Housing and Community Development for $100,000.

Indicators of Economic Impact

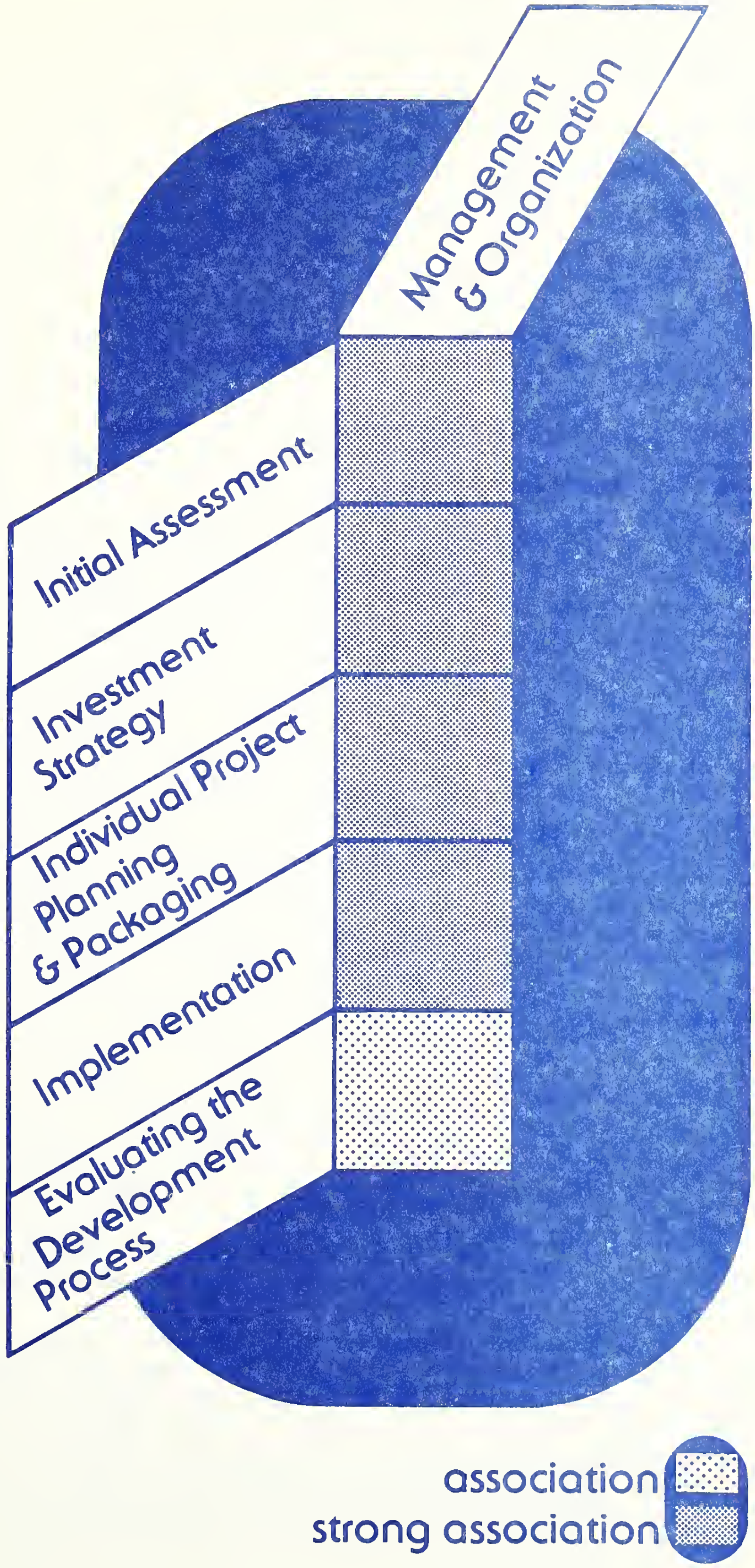
Senior Citizen Transportation Number of clients served annually	24,000
Senior Citizen Food Co-operative - Number of clients served annually	7,536
Value of food purchased annually	7,200,000
Handyman Program	7,200
Number of senior citizen owner occupied homes served annually	25,000

Many of these services cannot be converted to dollar amounts and are left as they are. Figure V.1 presents a scheme for carrying out an aggregate impact for one CDO.

FIGURE V.1

A FRAMEWORK FOR MEASURING AGGREGATE TELACU IMPACT ON THE COMMUNITY

GOAL	TYPE OF COMMUNITY CAPITAL IMPACTED	INDICATOR(S) OF DIRECT CAPITAL FORMATION
1. Increase the income of community with special emphasis on the poor	<u>Direct</u>: Improve and increase the supply of human capital <u>Indirect</u>: Improve and increase physical capital in the community to allow for more job participation by local residents	a) Wage Impact of TELACU administrative personnel b) Wage impact of job placements and On-the-Job Training programs run under contract by TELACU c) No. of community entrepreneurs helped through (i) class instruction (ii) loan packaging (iii) aid in contracts procurement
2. Improve Employment for community residents	<u>Direct</u>: Improve and increase the supply of physical capital that can hire community residents <u>Indirect</u>: Improve and increase human capital	a) No. of TELACU employees b) Growth in assets of TELACU c) Businesses assisted by TELACU through (i) direct loans (ii) SBA loan packaging (iii) contract procurement d) Other capital formation brought about by TELACU e) TELACU Industrial Park
3. Improve Social Services for community residents	<u>Direct</u>: Improve and increase the capital both inside and outside the community which produces social services for community residents	a) Social Services directly run by TELACU b) Social Services impacted by TELACU
4. Help represent the needs of the community by working with County, State and Federal Courts	Improving all forms of capital through advocacy that yield income or services to the community	TELACU Programs that impact social service policies for the community by government organizations


Management & Organization
Initial Assessment
Investment Strategy
Individual Project Planning & Packaging
Implementation
Evaluating the Development Process
association
strong association

CHAPTER VI

MANAGEMENT AND ORGANIZATION

CHAPTER SUMMARY

This chapter presents basic management concepts and tools for the Community Development Organization (CDO). Key management roles and competencies are described, and alternate forms of organization are suggested. By studying this material the CDO will be able to assess and improve upon its abilities to introduce and manage the Development Process (Part 2 of the Handbook).

The requirements for effective management are greatest when the environment in which the organization functions is changing rapidly. This is certainly the case for a CDO in today's social climate. The CDO must combine human talent, community resources, and outside funding in an operating framework, along with a strategy designed to meet local economic development needs. The basic task of CDO management is to implement community-based economic development. This task requires teamwork and organization, trained people, and substantial resources. The acquisition of these resources calls for professional management knowledge and skills.

HOW THE CHAPTER IS USEFUL

This chapter is intended to present concisely the foundations in management and organization that will broaden the organizational capacity of a CDO to fulfill community economic development needs as well as carry out an efficient and effective development strategy and process. A selected and annotated bibliography appears at the end of the chapter.

VI.1 AN OVERVIEW OF THE CDO FROM A MANAGEMENT PERSPECTIVE

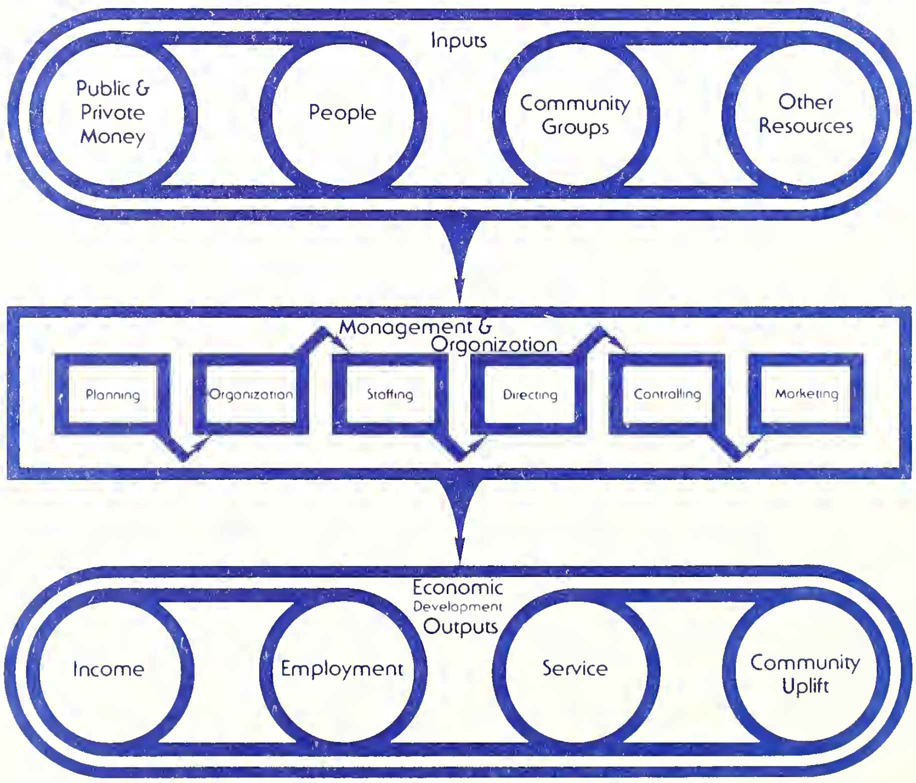
The results of experience and modern research show that there is no one best way to manage, no magic formula for managing all organizations. There are no universally applicable plans, organization structures, leadership styles, or management controls. These all depend on the situation and its elements. Therefore, the CDO should adopt a flexible approach to managing its affairs, known as a contingency approach to management. The management of CDO operations needs pragmatic decisionmaking in these kinds of areas:

- What works best for the situation of the CDO component being considered?
- What management practices fit best?
- What structure fits best for a given corporation or firm in the CDO?
- Should it be a standard functional organization; should it be a program organization; or would a matrix structure fit best?
- Should the style of the organization be open and participative; should it be directive; or should it be somewhere in between?

These questions and others will be explored in this chapter, but, as an overview, what is a CDO from a management perspective? A useful way to think about the CDO in this context is to view management and organization as the means to bring together diverse resources, or inputs, and utilize these in bringing about desirable community results, or outputs (see Figure VI.1 below).

Figure VI.1

THE CDO FROM A MANAGEMENT PERSPECTIVE



This simplified view shows that human, capital, and other resources are applied to achieve greater community income, employment, services, and overall improvement in quality of life by management and organization. There are no natural forces at work that will transform inputs into sustained economic development results. Without effective and efficient management and organization—The performance of the functions and activities listed in the middle component of FigureVI.1—community economic development is haphazard and chaotic. Thus, from a management perspective, the CDO is the active ingredient that marshals and guides appropriate resources into community development results. And the CDO accomplishes this overall role through proper planning, organizing, staffing, directing, controlling, and marketing. Each of these elements of management and organizations is examined a little later in this chapter.

The community organization evolving into an economic development organization, what we have called a CDO, is not starting from scratch. There probably exists a core group of people, a few full-time employees perhaps, but mostly part-time and volunteer workers who have performed social service functions in the community. It is from this core group that a CDO will be created. The major questions to be addressed might include the following:

1. How does the community group make the transition from an "informal" organization to a "professional" or "formal" organization?

2. How is the transition made from organizing/supplying social services to planning/implementing economic development?

3. Is it possible to strike a good balance between making profits and contributing socially to the community?

4. Is it possible to find people with the right kind of technical expertise—should they come from outside the community?

5. How can the fledgling CDO plan its strategy when there are so many crises to take care of?

These are major issues for every CDO, and similar to problems faced by any business operation. Any organization on the path of expansion or growth is concerned about what formal structure to adopt. And most CDOs that have moved into economic development have built upon their social "business" to do so. Every successful CDO wants to continue its successes in the social arena, while implementing planned economic change. They have also had to face the issue of using local talent vs. recruiting "outsiders". All organizations—private, public, profit, or non-profit—entail some element of "crisis management". These problems are not unique to community organizations.

It is typical of all organizations that management and organization have a single unifying purpose: *achieving and maintaining the highest level of productivity possible.* Productivity is the relationship between inputs and outputs. Referring to our earlier discussion,the term "productivity" for the CDO

encompasses both *how* resources (inputs) are used, and *what* community economic results the CDO achieves with them (outputs). Productivity focuses management action on the proper relationship between inputs and outputs needed to reach community economic goals in the development process. Productivity improvement occurs three different ways:

1. When resource use remains constant but outputs increase.
2. When resource use increases but outputs increase even faster.
3. When resource use declines but outputs remain the same.

Referring to Figure VI.1, on the input side management's concern is with *efficiency*: "Are we doing things right? are we keeping expenditures at the lowest possible level in order to achieve desired economic changes?" And on the output side the concern is with *effectiveness*: "Are we doing the right things? Are we creating the most viable projects with the greatest impact on development of our impacted area?"

Again, there are no inevitable forces at work that assure a high level of productivity. And productivity efforts ultimately depend on individuals and their contributions within the organization. Achieving high productivity takes management and organization—planning, organizing, staffing, directing, controlling, and marketing.

VI.2 THE KEY ROLES OF MANAGEMENT AND ORGANIZATION

The CDO serves as a catalyst and agent for change in fostering economic and social development in a community. To expand from an informal, or even a formal non-profit social service oriented organization into a CDO requires that core leaders/members of the community organization analyze and decide on the appropriate type and structure of organization to adopt. You must also determine how the expanded management functions will be performed. This will be necessary to create the capacity to acquire funds or capital, increase available human talent for the CDO, develop a comprehensive economic development strategy, and apply these ingredients in the community for desired results. In short, to design and implement the development process presented in Part 2 of this Handbook, key roles and functions of management and organization need to be considered as economic development is added to the community organization's mission goals.

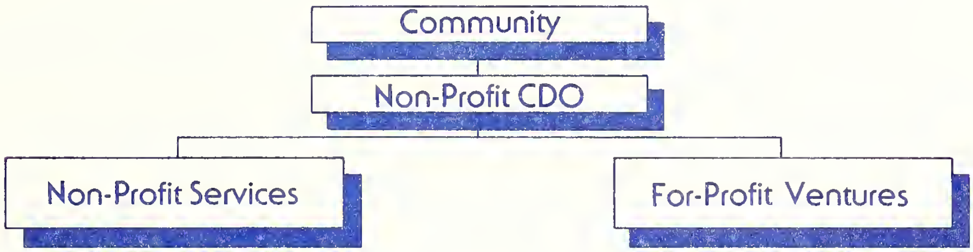
Activities might start with the core group doing strategic planning aimed at identifying the economic needs of the community. Once areas of need or opportunities have been specified, you can initiate analysis of alternatives for organization growth and design. Three kinds of organizations are customarily found in community development programs:

- Non-profit, to furnish specific social services
- Cooperatives, to take advantage of economies of scale through volume buying or large-scale production of products or services

- Businesses for profit, to stimulate and improve the economic development of a community and generate investment capital.

A typical CDO organization chart might look like this:

Figure VI.2



Alternatives for organizational design will be discussed later in this chapter, but no matter what kind of structure is put together to meet the needs of the community, the roles performed to manage successfully are essentially the same. These are summarized as follows:

- *Planning* is the most basic of all management functions. The manager organizes, staffs, directs, and controls to assure the attainment of goals and objectives according to plans. For the CDO, Chapters I and II especially focus on planning in terms of assessment and investment strategy. In a management context, CDO planning is the foundation of the development process, since the resulting investment goals and objectives will guide all other CDO management functions.

- *Organizing* makes it possible for people to work effectively toward accomplishing goals. Again, referring to Part 2, the development process includes specification of verifiable community goals to be attained. The organizing function then creates the roles and relationships that facilitate goal directed activities.

- *Staffing* involves the proper selection, appraisal, and development of people to fill the roles designed into an organizational structure. The function of staffing in the CDO was touched on in Chapter IV and has to do with placing human resources in identifiable roles prescribed in the organization structure.

- *Directing* involves the manager in motivating, communicating, and leading. Managerial deficiencies in directing personnel in the CDO can make it impossible to fulfill planning goals, and nullify all the effort that has gone into organizing and staffing the CDO.

- *Controlling* closes the loop in the system of managing and involves assessing the organization's record of accomplishments compared with its plans. Thus, CDO management controls by evaluating progress toward community development goals. Deviation from plans or progress may be corrected; thus, control may result in setting new goals, developing new plans, changing the organization structure, improving staffing activities, and changing techniques used in directing. Effective control gives feedback to CDO management so that corrective action can and will be taken to get the development process back on course.

As stated above, the CDO's management can ensure a high level of productivity by doing a good job in each of the key roles. A more in-depth discussion of each follows.

A. Planning

Planning initiates the development process and, thus, was an integral part of Part 2 of this Handbook. Discussion here focuses on planning as a management tool—a way to link individual and organizational effort with requirements of the development process.

By starting your planning process early in the game, you will be able to introduce new CDO members into the planning system from the day they join the CDO organization. Planning then becomes the customary way things are done. All members of the CDO will set their objectives with the help of their leaders. The latter will have set their objectives to achieve the goals of economic development desired by the CDO. In this way, all members work as a team toward the same end.

Every organization in the CDO should adopt a planning system. When developed on the basis of a set of procedures, the planning system becomes clear. People in the organization know what's expected of them. The planning permits coordinating the activities of people with different backgrounds and different skills.

A planning system affords the following advantages:

- Such planning deals with the outcome of current decisions. The managers responsible for the planning can study the possible consequences of today's decision, and select that which seems best for the organization in the future. They can devise alternatives in the event of possible contingencies and so be ready to change course on short notice if trouble appears likely.

- Planning is a process. Keyed to basic strategies and policies, it spells out what's to be done, when, how, and who's to do it.

- Planning is a philosophy. When managers learn to work with formal planning, it becomes a way of life that underwrites a climate of achievement.

Managing through planning is a tested way to gain the productivity the CDO needs to assure healthy growth. Modern management, by and large, proceeds from this kind of planning; it follows the practices of managers proven outstandingly successful in achieving and holding high levels of productivity in successful organizations.

These managers show similar ways of doing things. Instead of bing directive bosses, they tend to act as coaches, teachers, and counselors with their subordinates. They help their people set objectives in keeping with their own goals. They let their people have a great deal to say about their jobs and how they do them. This way of administering the affairs of a CDO is certainly in keeping with the social need to be democratic in our culture.

As your CDO moves from its current phase to that of economic development, the need for careful planning assumes major importance.

- Planning produces a structure, or network of plans. This planning structure welds strategic with shorter range operational plans. It integrates strategies, goals, objectives, policies, and activities at all levels in the organization.

Economic disaster occurs too often in for-profit enterprise. The way to tilt the odds in favor of success is for you to do the most careful planning possible. From the very beginning of the move into economic development formal planning in financial matters, in marketing, and in other essential areas, will improve your chances for success.

Here are some suggestions for making your planning system work with minimum difficulty:

- The central feature of planning is focused dialogue between a manager and those that report to him/her. Discussions should be directed toward identifying objectives that are challenging but achievable, and that contribute to fulfilling one or more goals of the CDO's development process.

- At the conclusion of such discussions, all plans should be written down, perhaps in memo form, recording agreements reached between each employe and the person he/she reports to. These should not be elaborate forms but merely "person-to-person" talks "on paper." There are two major advantages of written plans. First, writing specific objectives, subobjectives, and action plans, even in summarized form, requires disciplined thinking and specificity. Second, recording such discussions on paper supplies a diary of an agreed upon work program for each employe. The resulting memos will not, and should not, cover every aspect of what the employe does. It will specify results expected within a planning period, and, as crises occur, will serve as a reminder for managers and employes to get back on track after the crises are resolved.

- Limit the number of terms used in the planning system to a tested few. We have seen many attempts to introduce planning bog down in heated arguments about the meaning of the terms used; for example: What's a goal? What's an objective? Which is more important; and what's the difference between targets, state points, and check points? Here are the words we suggest should be used in planning. They are simple and few in number. By staying with them you limit the possibility for confusion:

  Objectives are overall purposes of positions to be reached. They are relatively short-range, perhaps a year or so. The requirements of the CDO and its development process will set the length of an objective. For example, a CDO might have an objective that states: "Establish three low-technology manufacturing enterprises employing at least 250 employes from our impact area within two years."

  Subobjectives are the end results desired by a specific time. Subobjectives tend to be more concrete, more limited in scope and time, than objectives. Generally, several subobjectives will have to be achieved and integrated to reach an objective. For example, a manager in the CDO might have the following subobjective: "Complete the prospectus/business plan for three low-technology manufacturing enterprises by the end of the year."

  Action Plans are steps, activities, tasks, projects, or programs, which together accomplish subobjectives. Action plans are the ultimate step that make formal planning work. Action plans imply activities—people doing things, working and interacting with others inside and outside the organization.

1. GUIDES TO WRITING PLANS

Here are some well-tested guides that will help your CDO managers prepare plans:

- No division, department, or individual management position in the CDO should have more than six or seven major objectives in work at any time. Planning should avoid spelling out in step-by-step detail how people should do their jobs. Planning should afford guides that are specified as *results*, which may be thought of as standards of performance. Therefore, managers are free to do their jobs in ways they feel comfortable with. The ultimate criteria of performance are: Do they do a good job that meets the requirements, on time, and within the budget of money and resources allocated?

- Plans should be written informally, not on standard forms developed for the purpose. Use of standard forms tends to move the system toward bureaucracy, in which filling out the forms becomes the important part of the planning process. Means become ends and the

whole purpose of gaining enthusiastic commitment to achievement is thwarted.

- Plans should be stated in simple, clear language. A clear crisply stated plan says what is intended without being hard to interpret or causing confusion.

- Each plan should start with an active verb, which says *do* something, don't just sit there. Verbs show action. Here are typical active verbs that might start a plan: *Reduce* turnover, *increase* net profit . . . *hire* two people for . . . *buy* a new site for . . .

- Each plan should have an end date by the calendar. This means a specific date such as June 15, 1980, or November 10, 1981. A specific date sharpens the focus of timeliness for achievement. Take advantage of it.

- Each plan should specify a way of measuring achievement toward its accomplishment. Wherever possible numbers should be used; for example, dollars for profit, pounds of scrap, or percentage of turnover. Some plans aim at objectives that can't be put into numbers. If so, use a scale of some kind, for example, ranging from poor through fair, good, and excellent.

- The final suggestion: In addition to a means for measuring progress toward a goal, there should be a statement of how often feedback on progress should be checked. Looking at performance over too long an interval may cause trouble by allowing performance that differs too much from that desired, making it impossible to correct in the time left. The appropriate interval for checking progress must be set by sound managerial judgement.

2. PLANNING SHOULD BE PRACTICABLE

Planning should be within the capacity of the CDO and the individual. It should not be blue-sky. But planning should stimulate accomplishment of some aspects of the development process and growth of the CDO and its people. Plans should be set at high enough levels to stimulate growth or expansion, but not so high as to be clearly out of reach. By encouraging growth, individuals become more competent and the CDO becomes more effective.

3. ADVANTAGES OF FORMAL PLANNING

The system of formal planning carries certain distinct advantages over more traditional ways of managing. Most important, formal planning will assure that efforts are directed toward specific results in achieving high productivity. When introduced into the CDO, formal planning promotes individual commitment to work. Once the ideas for planning in the fundamental business requirements have taken hold, the planning system can later include features such as appraising individual performance, gaining insight into individual

strengths and weaknesses, adjusting compensation, and developing a management succession program.

4. CAUTIONS IN INTRODUCING FORMAL PLANNING

It should be pointed out that these various uses of planning should never be introduced all at once. Instead they should follow one another gradually over a long period, perhaps two or three years, as the CDO grows and management gains planning experience. If all these features were introduced as a package, the learning needed to make the planning system operate well would be too complicated, confusing, and self-defeating.

5. PLANNING AS A HUMAN STRATEGY

Formal planning makes it possible to fuse individual and organizational effort with the needs and requirements of the development process. Its strategy allows for individual differences. Members of the organization can do things in their own way. Individual style or method is secondary to achieving the required results for accomplishment of the CDO's overall (productivity) objectives. The only constraint on members of the firm should be that they behave in a legal and ethical way. In a word, the strategy of the planning system we have described permits individual freedom within a disciplined approach to organizational achievement.

Although focusing on individual needs and performance, the system ensures the development of teamwork because of the need to consult with others and to arrive at mutually acceptable planning in the process. The consultative procedures in the planning process enable the emergence of an open climate management. This in turn supports the teaching, learning environment from which innovative and powerful forward-looking management develops.

B. Organizing

The function of planning is to design a performance roadmap that tells where the CDO wants to go and the results it intends to achieve. The process of organizing calls for defining necessary roles, and the grouping of jobs into a framework for direction and coordination that facilitates the completion of plans. For the community organization, the central questions here are: "What additional functions and activities will we have to perform to engage in economic development; what jobs or positions will be necessary; how should these positions be linked together with clear lines of authority and responsibility?" The benefits that come with proper organization include:

- Clarification of who does what, and responsibility for specific results
- Facilitation of communication and control
- Improvement of planning and decisionmaking

- Definition of the task requirements for existing and new positions

The design of the CDO organization, or the redesign of the community organization to become a CDO goes beyond drawing boxes on a chart. Two separate tasks are required. First, you must select the legal form of organization CDO will utilize. The legal structure adopted defines in broad terms the mission and role of the CDO and its component parts. This requires major decisions, and involves complex and technical considerations. A separate section, VI.3, is devoted to legal aspects of organizing.

Second, within the legal structure, and discussed here are several management considerations for deciding on the best internal form of organization. Achieving the benefits of good organization design within the legal framework depends upon finding the structure that best fits the intended development program.

There is a wide range of effective organization designs, and choices should be based on strategies the CDO develops for economic progress of the community it will serve. Thus, in organizing, primary consideration is given to the kinds of services the CDO will supply and the tasks and information required to do so. The problem is to create mechanisms by which an integrated and coordinated pattern of purposeful work behavior can be obtained across interdependent groups.

Several basic types of designs are distinguishable, and experience and research suggests some advantages and disadvantages for each type. The following alternatives in design will be discussed from a management viewpoint:

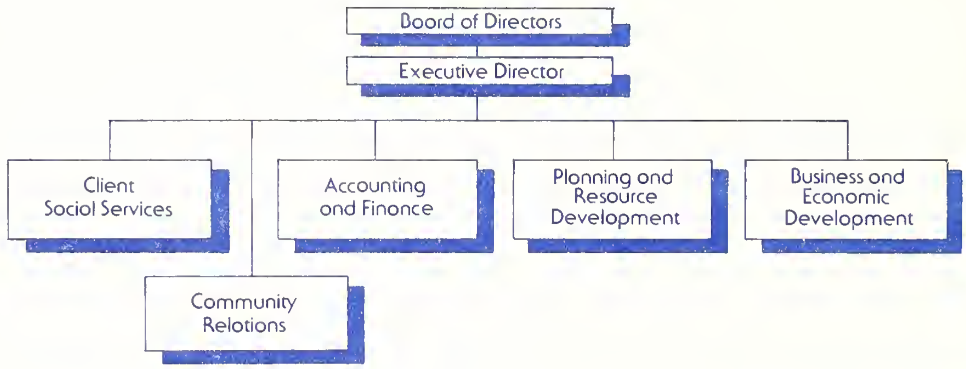
- The functional organization
- The program/product organization
- The matrix organization

More than one type of design will undoubtedly be used by the CDO as projects, business ventures, and resource development efforts are initiated and grow, and demand a different managerial approach.

1. THE FUNCTIONAL ORGANIZATION

The functional design divides organizational units so that each has different duties and responsibilities. Each function deals directly or indirectly with the CDO's clients or community, but performs different duties and supplies different services. For example, the CDO might have major functions such as client social services, program/project planning, community relations, accounting/finance, and economic development. Each function or division represents a grouping of closely related activities. For example, a CDO organized along functional lines might look like this:

Figure VI.3



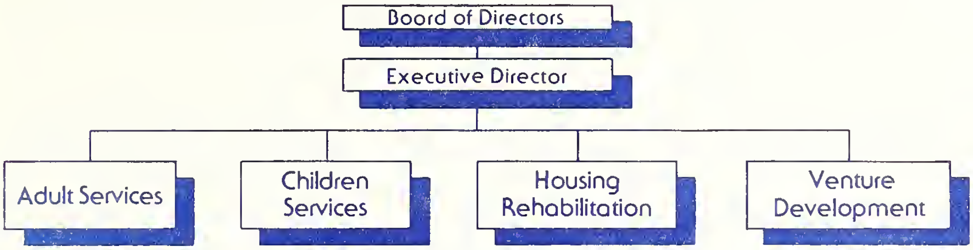
Functional structures concentrate competence in particularly effective ways by orienting people toward specialized activities. Some studies have found that when complex tasks are performed, organizations grouping jobs on the basis of function tended to produce superior products and services compared with organizations that used product/program groupings (discussed below). Evidence also suggests that stable environmental conditions favor the functional design. In general, when the work of the CDO is best accomplished by a high degree of specialization, then a functional structure can work well—but only as long as the social and economic environment of the CDO remains relatively stable.

A major disadvantage of the functional structure is that it tends to deemphasize peer-level cooperation and coordination in the organization. The CDO, organized along functional lines and specializations, could lose sight of its community impact mission. Results in economic development might be deemphasized because of specialized groupings. Boundaries between major departments of the CDO may hinder responsiveness to client and community needs. When problems arise that do not exactly fit within any one department, managers find them difficult to solve. It may be too easy for managers of departments and personnel to look at problems from the standpoint of finance or community relations or some other functional speciality rather than viewing and dealing with these problems from the standpoint of the CDO and the community as a whole. Further, this kind of "tunnel vision" may inhibit effective expansion of the CDO's services, programs, and projects as the development process evolves.

2. THE PROGRAM ORGANIZATION

This structure divides the units of the organization on the basis of products, projects, or programs. The program organization deploys personnel on the basis of specific social or economic programs, while the functional structure organizes people into specialist groupings. For example, the CDO might have the following program divisions on its organizational chart:

Figure VI.4



In contrast to functional organization, each program division would handle its own accounting, planning, and community relations.

The advantages of this design are particularly significant when the CDO has or anticipates a highly diversified development program for the community. Programs may be quite different from each other, serve different community needs and clients, and be funded from different sources. The program design permits effective specialization. Objectives of various divisions can be set in terms that are significant for the CDO as a whole, and keyed directly to the strategy of the development process.

Another important advantage of the program design concerns the development and growth of CDO personnel. The functional organization trains managers in a specialized functional area imbued with a functional perspective. In the program design, managers receive experience in various functional areas since *each* program division accomplishes most or all functions such as resource development, marketing/community relations, and program development and implementation. Such competence will be crucial as the CDO's development process unfolds and as needs for professional management talent increase.

Three additional advantages of this design lie in:

- *Control*: Research has shown that program structures are associated with a better record of meeting schedules and controlling costs than functional structures. What the program structure does is fix responsibility for all activities related to a particular program.

- *Innovation*: New and better ways to deal with problems are facilitated since there are no boundaries between various groups contributing to a program. Business organizations tend to abandon functional structures when they pursue growth through diversification, new product development, and new market penetration.

- *Change*: The program organization offers potential advantages in coping with unstable environments. These advantages include inducing greater cooperation among specialists, and focusing their combined efforts on performance.

The program organization leads to better results in situations where the task is less predictable and requires innovative problem-solving.

There are important disadvantages to the program design. First, this structure may pose human problems in terms of insecurity about jobs and loyalty toward the entire organization. Subordinates in these structures tend to fear possible unemployment (budget cutbacks), and be more frustrated by ambiguity or conflict, and feel less loyalty to their organizations than do subordinates in functional organizations. Second, program design can fail to concentrate expertise in essential ways. Specialists are located together in the functional organization. The program structure disperses them into subgroups oriented to particular programs. Since technical competence is often nurtured by interaction with similar professionals, functional expertise may be weakened by a program structure.

3. MATRIX ORGANIZATION

This approach to organization is often used along with a functional or a program structure, in order to resolve some of their disadvantages mentioned above. The functional structure often proves weak in emphasizing results and in providing coordination. The program structure often proves weak in concentrating technical expertise. The matrix design offers the strengths of both the functional and program structures while avoiding the weaknesses of either.

The matrix organization rejects the idea that resources should be organized exclusively around self-contained functions or programs, since such a move would either reduce specialization or require duplication of resources. The essence of this approach is to establish dual or multiple reporting relationships. This means that several members of the organization, while remaining attached to and operating within their own function or program, also have assignments and responsibilities for contributions elsewhere.

For example, a CDO might have some personnel assigned primarily to its business development program who are expert at writing technical proposals for federal funds. These individuals could be utilized in developing proposals for other program areas, such as social services, and thus their expertise could be more fully exploited. Organizationally, these individuals are "matrixed" for the period they are assigned out of their area of primary program responsibility.

The matrix approach is a contingency approach to organization. Human resources assigned to one program could be responsive to other program needs, and, depending on priorities, participate in task accomplishment outside of their program boundary. Such assignments of responsibilities would be dictated by the development needs of the community and the development process employed by the CDO.

The primary disadvantage of matrix organization lies in the potential confusion in reporting relationships — who reports to whom. Individuals may have

two or three "bosses", and, at any point in time, receive conflicting messages and demands about job duties. Managers may have difficulty keeping track of personnel and their performance. As a result, matrix structure requires more open and frequent communication, vertically and laterally, in the organization.

4. SUMMARY AND EXAMPLE

The program organization, like the functional organization, is a mixed blessing. The price of realizing the advantages of the program or functional structures includes incurring their disadvantages, though the matrix approach can minimize them.

The program design is the type most often used by existing community-based organizations wanting to expand into economic development. And the program organization is probably the best alternative for the CDO, since the multi-dimensional development process, described in Part 2 of this Hand book, entails a variety of effective programs aimed at meeting differing community economic needs.

The functional organization is appropriate for the CDO only when it performs simple tasks, when performance results are easy to measure, and when resources and the environment are stable and predictable. None of these conditions are usually present in accomplishing community economic development.

Even though the program organization may be adopted in some form by the CDO, this does not mean it is the final or complete answer to the organizing problem. It is the rare case where a simple model of organization fits the CDO, and this is due to:

- Its multifaceted role in community development.
- The complex needs of clients or client groups.
- The need to mobilize and supply special competence to satisfy particular community needs.

The model selected for the CDO should make it possible for you to target CDO resources on identified community needs, and also offer the flexibility to adjust as community needs are satisfied. This results in the need to organize principally around specific programs, using matrix or contingency approaches as priority needs arise. As will be seen in the following example, though, all three forms, functional, program, and matrix, can be effectively combined.

The Fernwood Community Development Organization (FCDO)* supplies a

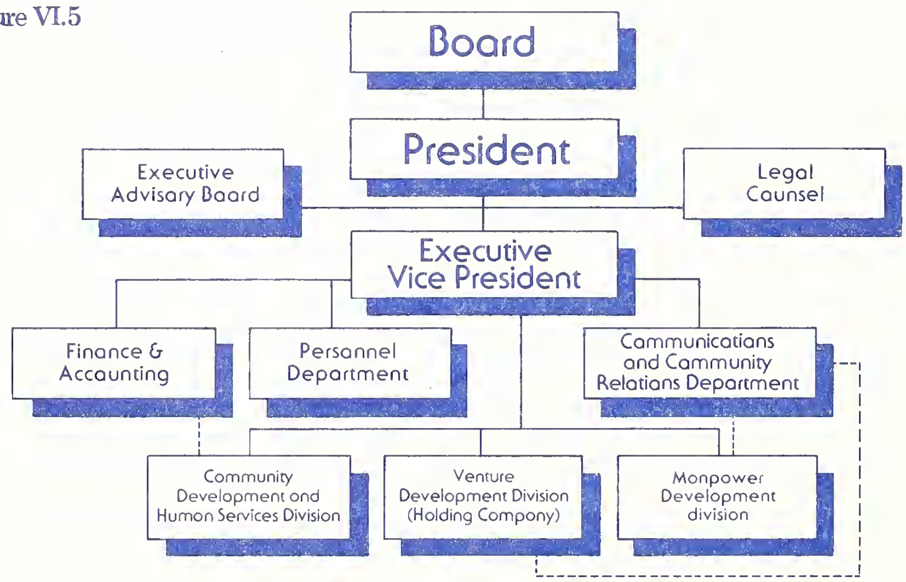
*A fictitious name is used here even though this case describes an existing CDO, so the reader will not construe our example as a model or standard with universal application.

good example of a CDO utilizing a basic program organization, supplemented by functional components, and, when needed, a matrix approach. An introducton to its organization chart is given by the following:

Example

"The full range of FCDO's activities and overall strategy is quickly if imperfectly represented by a chart of its organizational structure, and that should be considered before detailing the specific projects. Periodic changes in the program naturally have required periodic redesign of the organizational chart, but throughout FCDO's history the basic outlines of its program have remained steady enough. The chart presented here therefore probably illustrates as well as anything can the strategic priorities set by the organization."

Figure VI.5



Referring to the diagram, the basic program structure of FCDO is found in its three major operating, or line, divisions: a) Venture Development, b.) Community Development and Human Services, and c) Manpower Development. These are (and have been)the major priority programs of the CDO. These programs, however, are supplemented by three centralized staff functions: a) Personnel, b) Finance and Accounting, and c) Communications and Community Relations. The matrix approach (see dotted lines) is often used to supplement programs or functions on an "as needed" basis. For example, employees in the Finance and Accounting Departments are often matrixed to the three program divisions to assist in preparing government grant applications. And employees from the program divisions may when needed be matrixed to work in the Communications and Community Relations Department. Thus, employees are assigned on a temporary basis to one or more departments or divisions to augment existing staff and skills in other departments or divisions when priorities or workload require such added help.

The FCDO organization structure is typical of a more mature CDO. Rather than locate functional expertise in each program division, FCDO has found that greater productivity and coordination results from centralizing some specialized functions that, in turn, supply timely staff support for programs, and matrix some personnel to these program divisions when they are needed. In addition, at times functional areas may need extra help that can be borrowed from program areas. This organizational arrangement utilizes the strengths of each form of structure to maximum advantage, while minimizing the weaknesses of each.

To summmarize this discussion of organizing, it is important to understand that the CDOs structure be considered in a dynamic sense. The appropriate form of organization depends on its mission or purpose as community needs change, constant attention should be given to adapting structure to fit its environment, client needs, and available professional skills. And keep in mind that redesigning the community organization to accommodate economic development goals entails much more than drawing components on an organization chart. The basic task is to create the roles, relationships, and communication linkages that have the greatest potential for high productivity in achieving community economic development objectives.

C. Staffing — Filling Positions with People

Organizing sets the structure within which people will work toward reaching planning targets. When you staff an organization effectively, you place the right people in the right positions at the right time. This is a management task of great importance because the quality of the performance of the organization depends on the skills of its members.

Figure VI.6

	Duties	Reponsibilities	Authorities	Skills & Background
Existing				
Needed				

As the CDO expands into economic development, it will need to fill new positions created by this growth. The first place to look for personnel to move into these positions is within the existing organization. You can best do this through a management personnel audit. This means that you would list the requirements of the positions to be filled: duties, responsibilities, authorities, and the skills and backgrounds needed to do the jobs. You would then study and list the skills and experience of the persons in the existing organization. The first reference given at the end of this chapter includes procedures for doing this. By comparing the requirements for each open position with the qualifications of personnel in the present organization, you can select those where that individual seems best qualified to move into the open spot.

The CDO has two other sources of personnel to draw on: people within the community and people outside the community. When you face the problem of finding a person for a position your first step should be to know the requirements of the position very clearly. You can then define the tasks the position is responsible for — and what background and skills are required to do the job.

There is a trade-off between staffing with personnel from within the community vs. staffing with those from outside the community. If experienced and skilled personnel are not available within the community, it may be better to staff initially with qualified outsiders even though this may bring some negative community reactions. For example, in initiating business ventures, the risk of failure is exceedingly high even with seasoned entrepreneurs running them. Using inexperienced personnel to start and run new businesses adds even more risk at a time when the CDO badly needs some commercial successes. Some mature CDOs have found it better to staff with outside experts initially, and then train personnel from within the community to gradually assume more responsibility. As initial ventures grow and prosper, additional staffing needs emerge, and these can be met by human resources with training from the community.

Case I

A CDO started a for-profit business venture, a pharmacy, in its community. The intent was to furnish a community service that had been inadequately provided by the private sector. While this business faced a multitude of problems, perhaps the most important was to be found in its management. The pharmacy continued to rely on business expertise from within the CDO even though it was clear to the person in charge of it that the CDO had come to the stage of its evolution when it needed more business expertise than was available in the community served by the pharmacy.

An experienced manager with a good track record from outside the community could have conceivably saved the venture from failing.

Case II

A CDO started a highly technical business under the direction of a talented financial expert who had worked for the organization for many years. He recognized his limitations and hired a manager from the community and paid him a $60,000 salary. This manager soon had the business generating a large enough profit so that it was possible to open another branch outside the community. A negative aspect was that employes from the community who worked for the manager were paid poorly and required to work long hours. A situation which the CDO had criticized in other community businesses. Thus, the business made a profit and expanded, but its community impact was probably not in the best interests of the community it claimed to serve.

Case III

A CDO decided to move into housing rehabilitation in a major way. It hired a businessperson with experience in running similar ventures in the private sector. Unfortunately, no one in the CDO had the expertise to monitor or control him and he succeeded in directing large amounts of cash to his own private business. By the time the embezzlement was discovered it was too late. The CDO lost a considerable amount of capital.

In part, the philosophy of the CDO may govern choices made in fulfilling staffing needs. But these choices should be made with a clear picture of the high risks involved and a long-run view of what will do the community the most good, as illustrated by these cases.

You will probably be able to fill many positions in the organization you are working with from the human resources in the community. But you may have to bring in outsiders for expert help in several professional areas. In this case volunteers can usually be found. The experience of the Mexican American Council for Economic Progress (MACEP), of Austin, Texas, is typical:

> MACEP deals with every element of the community. Political, business, social, minority, and public organizations are concerned with the economic development of underdeveloped areas, as all benefit from the success of such a project. Churches have been especially helpful and supportive of MACEP. MACEP does not work with other agencies; local groups have shown interest and support for the project. Although MACEP does not recruit volunteers, from time to time people from outside the community will volunteer their skills, from secretarial to technical expertise. Bankers and lawyers have foregone consultant fees at times and have donated their time to promote MACEP to others who are capable of helping.

You can follow this example to build up a file of professionals, both inside and outside the community, who can be counted on to fill either temporary or longer range needs of your CDO organization. And you and your associates

need not be bashful about asking qualified outside or inside people to provide their services when you need them.

To make sure that you are able to fill positions, you should keep records of the strengths and weaknesses of permanent members of your staff. These records need not be very elaborate. Notes written in a three-ring binder are usually adequate. These records will allow you to single out people to promote when needed. You will also be able to determine what kind of training or development members will need to help them improve their performance.

A special problem you may have to face is that of rapid turnover of personnel in paid positions. The salaries your CDO can pay may not match those available in other places, inside or outside the community. Good people may leave because they can find jobs at higher pay elsewhere. This is the situation faced by the CEDC of Alaska, perhaps in somewhat more severe a form than you might experience, but nevertheless typical:

> The salary structure in Alaska is higher than in any other state, and is escalating in a vain effort to keep up with Alaska's soaring cost of living (also highest in the United States). CEDC has urged OEO (CSA) to support increases that would bring CEDC salaries in line with those of Alaska's state government, including cost of living and merit step increases. This has naturally led to problems.

You can see the importance of keeping records of personnel who can be advanced, prepared for advancement, when members leave the organization.

You can move people up or bring in help from the outside when you know whom to move up or bring in.

When this whole process of having personnel available to fill positions as needed is done methodically, it is called a management succession system.

D. Directing

Planning emphasizes results, organizing deals principally with structure, and staffing involves personnel acquisition. Directing is concerned with the human and motivational dimensions in the relationship between a manager and subordinates.

Directing in the CDO has essentially the same meaning as leading. Through the exercise of leadership, directing aims at managing the interpersonal relationships among members to help them understand and work hard toward the achievement of the objectives of the CDO.

You will find the directing function not an easy one to perform. The relationships of paid staff members and volunteers from inside and outside the community tend to be complex. You must cope with differences in educational

level, social custom, even in the way words are used, misinterpreted, and misunderstood. You will have to proceed gingerly, keeping constantly aware of the need for patience and courtesy in your dealings. A report on community economic development meetings in a CED corporation in South Carolina illustrates this point:

> Mrs. F. (not a board member) stressed the importance of Class A members (Class A members are those holding stock sold exclusively to poor members of the community) participating in the regular meetings. She then asked for some reasons as to why Class A members do not participate.
>
> Mrs. C. (a class A director) said some of the reasons are because Class B members talk too fast. And some of the words they use we do not understand. (Class B members own preferred stock and were considerably more affluent than Class A shareholders. They tended to come from outside the community).
>
> It is difficult to remember that the Class B directors often do not understand things which others take completely for granted. For example, the second meeting of the Class A directors included a discussion of the meeting and use of Roman numerals. One director explained, ... that Roman numerals are simply Roman numbers.

You will want to adopt a democratic approach in your directing effort. The CDO should represent the whole community. Its goals, which determine its mission, should be set by collaboration among the representatives of the various parts of the community. This means that you should allow people to have their say in planning and decision making.

You will want to reach the answers by consensus rather than by taking a vote. Consensus implies that people talk things through, submit their ideas openly, thrash through differences, and come to agreement on what to do. Taking a vote on an issue too often divides people. People tend to stick with their *ayes* or *nayes* as a matter of pride; stubborness outweighs reason and the group can become separated into factions. That is why consensus serves the purpose of the CDO as voting cannot. Consensus supports teamwork.

You can see from the foregoing that directing in the CDO suggests the need for a sensitive style of leadership. Your objective in leading in this way is to get members to cooperate in the planning and in using their energies and talents in developing and carrying out the planning to which they have contributed.

To sum up, the function of directing in the CDO rests on concepts of the worth and dignity of the human being. Managing is carried on in an open, participative way. Members are listened to, have their say about what the organization should be doing, and have some say about their jobs and how they should do them. Directing in this way keeps the efforts of the members focused on achieving the CDO's objectives.

E. Controlling

Controlling is the feedback loop in the system of [illegible] means keeping performance at a desired level. In [illegible] ance [illegible] see if performance is [illegible] be able to compare actual with planned performance. [illegible] your effectiveness in controlling [illegible] with the [illegible] your ability to get timely feedback on how well [illegible] out. Earlier in this chapter a proven way to do the planning [illegible] give you a sound basis for controlling. The objectives, [illegible] tivities you need to see if what is happening is actually what [illegible] pen. You will be able to see if the standards of performance [illegible] plans are being met. If there is a drifting off course, [illegible] design the planning where needed to get back on course. [illegible] controlling.

Note that the same idea of participation holds here in [illegible] in the CDO as in directing — members should help set plans in [illegible] operation. Through their planning they can then exercise [illegible] for carrying out the plans by controlling their activities themselves.

Control efforts may be addressed to any number of activities. [illegible] sought from a government agency, from a private foundation, [illegible] donors, or through the formation of a corporation and [illegible] Preparation for raising funds requires careful planning. [illegible] from the beginning to include a detailed plan for controlling [illegible] use of the funds. Government agencies and other funding [illegible] assurance that the funds are used effectively for the intended [illegible]

You will find in Chapter IV a discussion of managing project [illegible] monitoring project performance. The suggestions offered [illegible] apply directly to controlling the financial aspects of any of [illegible] tivities you may find yourself managing. The main thing is to [illegible] ance and the accompanying use of funds on a timely basis. It [illegible] with the group that is carrying out the project or other [illegible] task. Since they will have provided input to the planning, they [illegible] ted to control costs in a careful way. In a psychological [illegible] the task and will do all they can to make it come out well, on [illegible] in budget.

To summarize, controlling can be seen as the link between planning and [illegible] ing. The basic steps in the control process are: Establish performance [illegible] measure performance; compare desired results with actual results; [illegible] changes, if needed, to make in planning and activities; make [illegible] performance back to the desired level.

F. Marketing

As a community organization grows and adopts economic development [illegible] part of its overall mission, the importance of marketing its services and [illegible]

mercial activities is often overlooked. Marketing is different from other roles of planning, organizing, staffing, directing, and controlling. These roles, as indicated, are geared to establishing the internal processes necessary to link inputs of the CDO to desired outputs. Marketing is the external role — it bridges the gap between the CDO and its client/community groups.

For the CDO, marketing may be defined as a planned system of activities designed to create, promote or communicate, and supply need-satisfying economic services to different client groups. This definition emphasizes, first, that marketing is neither a single isolated activity nor an assortment of random activities. It is a purposeful set of managed activities designed to detect community needs, to create services and opportunities to meet these needs, and to communicate the extent of available services and opportunities and their benefits.

Second, marketing the CDO and its services must be based on a multiple-customer orientation. Actually, the CDO serves several customer groups, including: 1) the community customers or clients who participate in the development process and benefit by a higher standard of living, 2) the customers who purchase products or services supplied by the CDO's commercial ventures, and 3) local constituent or advocacy groups whose support is needed in implementing the development process.

Services, projects, programs and ventures created by the CDO must be tailored to community-client needs. In addition, the CDO must market its programs and approach to government and other funding sources. In this sense, each member of the CDO has a marketing role. Each program and function will attempt, in different ways, to satisfy client or community needs. As in the private sector, customer satisfaction is the ultimate survival test for any organization. Thus, a marketing orientation should permeate the philosophy, goals, plans and outreach programs of the CDO.

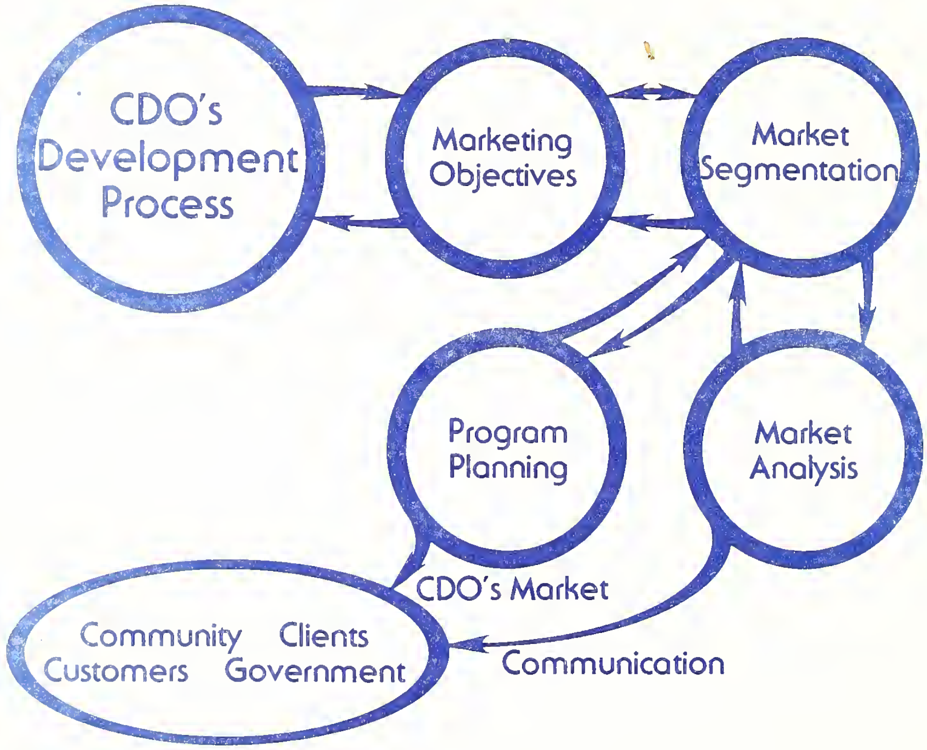
Management of CDO includes managing its marketing system. At a minimum, this means that the CDO should have coordinated activities in these areas (see Figure VI.7):

- *Market analysis and feedback:* Ways to obtain a continuous flow of relevant information in sufficient detail to adapt the development process over time to changing community needs.

- *Market segmentation:* Constant attention to whether appropriate user or client groups are being reached by the CDO's services or programs, and whether new client groups should be included in or influenced by the CDO's development process.

- *Client communication:* Accurate, informative, and timely promotion of CDO purpose, approach, and results tailored to different market segments.

Figure VI.7



All of these marketing activities are guided by marketing objectives relevant to the CDO's development process.

Marketing is a continuous process that deserves a great deal of top management involvement. As mentioned, often weaknesses in CDO performance in community development result more from inadequacies in the marketing system than from technical ineptness in program design or from limitation of funds.

VI.3 LEGAL ASPECTS OF CDO ORGANIZATION STRUCTURES

The major management considerations in organizing were covered in Section VI.2, which focused on the internal issues and alternatives that apply to any legal framework that might be adopted by a CDO. This section presents the major advantages and disadvantages among the three formal legal forms available to the CDO.

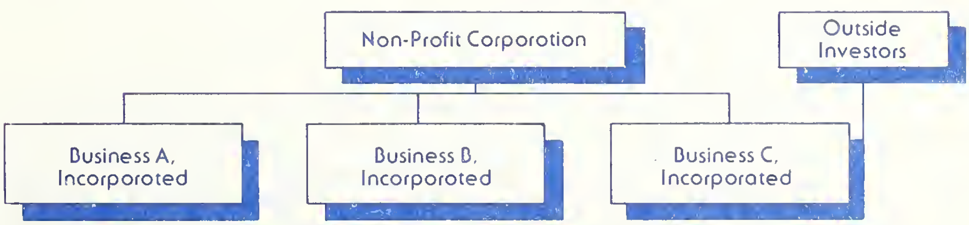
Differences in legal structures among CDOs express differences in the goals of the community and the means chosen to achieve them. It is essential that the CDO obtain competent legal counsel in fully analyzing and formulating the

formal legal structure. The discussion that follows sketches the major concerns and trade-offs in adopting one form over another.

The three basic structures for a CDO and a brief description of each are as follows:

1. *The Non-Profit Corporation:* A legal entity formed to accomplish broad social goals for charitable purposes. The incorporaters file appropriate forms in the domicile state with bylaws specifying qualifications for who can become members of the corporation. A board of directors is elected by the membership who retain ultimate control of the corporation. A typical case might be an informal, perhaps church affiliated, community organization that decides to form a non-profit corporation. The bylaws could specify corporate membership to include all participants in the informal community organization. It is these members who would elect the top management group — the board of directors — of the non-profit corporation. The bylaws would also spell out re-election procedures subsequent to the initial formation of the board. Fees to support the corporation may be charged for membership, but members usually do not expect to receive financial gain from the corporation. The non-profit corporation may qualify for certain tax exemptions. A typical organization chart might look like this:

Figure VI.8



In this case, the parent corporation or *umbrella* organization may own all the stock of subsidiaries A & B, and only a portion of stock in C.

Advantages: As the *umbrella* organization, the non-profit structure is probably the most frequently used legal form. It may be in a favorable position to receive federal and state grant funds, and charitable donations if it qualifies for federal tax exemption. Also, any surplus or income over expenses may not be taxable if used for reinvestment. As for businesses wholly owned by the non-profit corporation, by incorporating them separately the creditors of one business are prevented from reaching the assets and profits of another.

Disadvantages: The non-profit *umbrella* corporation is usually prohibited from lobbying or participating in other kinds of political activities. Unlike the for-profit corporation, the non-profit parent usually cannot pool the profits and losses of its subsidiaries and file a single joint income tax return.

This means that profits of one wholly owned business cannot be offset by losses of another. A way to overcome this problem is to create a for-profit holding company that would own (hold) all stock of the subsidiaries, while the non-profit "umbrella" corporation would own all stock in the holding company.*

2. **The For-Profit Corporation:** A legal entity created to carry on business for the benefit of its stockholders. The incorporaters select directors who decide who will be allowed to purchase stock, and the incorporators also determine the purchase terms and conditions. Revenue from sale of stock is used as capital to finance the corporation's programs. The stockholders, who then control the corporation and expect to gain financially from its operation, then elect the permanent board of directors.

   Advantages: A for-profit corporation can attract capital from investors, and can distribute dividends from profits directly to the community. The CDO can have a less complicated structure since the intermediary holding company mentioned above is unnecessary. Access to management assistance and loan programs of the U.S. Small Business Association (SBA) is assured for the for-profit organization. The SBA will normally not deal with a non-profit corporation.

   Disadvantages: New business ventures often take a long time to become profitable. The for-profit CDO may unrealistically raise community investor expectations for financial gain. The result could be poor community relations that would be difficult to rebuild. In addition, if charitable donations are desired, the for-profit CDO will also need a tax-exempt organization within the structure. In this case a separate non-profit organization with its own board of directors would be created. Tax deductible donations could then be received and used for charitable projects contributing to economic enhancement of the community. It could not start a business venture, but donations could be allocated to the for-profit CDO or to one of its ventures. In general, because two boards are operating relatively independently, the for-profit CDO is a more complicated structure than the non-profit corporation acting as the parent or *umbrella* organization.

*The holding company could then pool the profits and losses of all subsidiary companies in which it owns at least 80% of the voting and non-voting stock, and file a consolidated tax return.

3. **The Cooperative:** A legal entity, frequently incorporated, that brings together an association of individuals who want to perform consumption or production activities through a central organization. A major reason for a cooperative is to achieve competitive benefits from collective action, such as buying in large quantities or selling a common product at more favorable prices.* Membership qualifications will be specified in the bylaws of the cooperative. The cooperative differs from both non and for-profit forms since members are expected to participate actively in the cooperative's operations.

   Advantages: A cooperative for consumer or producer ventures pays taxes on earnings they receive.** Earnings of a for-profit corporation are taxed twice — corporate profits are taxed, and shareholders are taxed on dividends they receive. If, for example, a community economic goal is to produce and market homemade products and share profits according to each member's output, then the cooperative corporation may be the best structure.

   Disadvantages: The use of the cooperative structure is usually limited to single projects, such as marketing homemade or homegrown products. Many states limit the scope of the cooperative, making it impossible for it to fulfill the missions of a CDO. However, especially in rural areas, cooperatives may be given such wide latitude of operation to make it the best alternative for the *umbrella* corporation. In most cases CDOs use the for-profit or non-profit parent, and assist the community with grants, advice or loans to form consumer or producer cooperatives.

Only *one* of these three structures will act as the parent economic development organization, with its major concern being the overall economic enhancement of the community it serves. However, more than one legal structure may be used as part of its operations to deal effectively with particular aspects of community development. For example, the CDO could form a Minority Enterprise Small Business Investment Company (MESBIC) or a Local Development Company (LDC) as a subsidiary operation under its umbrella organization. These are highly regulated special purpose organizations designed to accept, manage, and distribute federal funds for investment in small business ventures in poor communities.

It is essential that you obtain competent legal counsel in deciding on and forming the legal structure for the CDO.⊛ A local attorney should be used — one that is familiar with the impacted community and its problems.

*The non-profit members expect financial gain from their membership.

** Individual members pay no tax earnings.

VI.4 SUMMARY: REQUIREMENTS FOR MANAGEMENT EFFECTIVENESS

The quality of management talent in the CDO will have a significant effect on the organization's success in community development. The level of skill exercised in the roles of planning, organizing, directing, controlling, and marketing will determine how well the CDO can implement the development process.

In fulfilling these roles, what specific personal attributes are expected of the ideal manager? What kinds of role traits do community group members and employees in particular want to look for in their CDO manager-leaders? A composite profile emerges as one studies the management literature and applied research, and it can be summarized as follows:

PROFILE OF THE IDEAL MANAGER

Attributes Expected (mentioned most frequently)	*Typical Employee Comments*
Empathetic	"sensitive to needs of others"
Trusting, fair, honest	"open and honest in dealing with others"
Encourages innovation	"wants people to come forward with their ideas"
Good listener	"reacts to what I say; listens to me actively and sincerely"
Delegates authority	"lets others have control and freedom over their work"
Self-confident	"acts positively and decisively with the available facts"
Loyal and supportive	"backs up employees on controversial things"
Creative and technically competent	"knows the business inside and out and has good ideas"
Good planner and organizer	"looks ahead and can pull together what's needed to get there"
Gives feedback on performance	"tells people how they're doing and is a good teacher"

[8] Additional information on legal structures and related issues can be found in two excellent publications: 1) CDC's: *New Hope for the Inner City,* available for $1.00 from the Twentieth Century Fund, 41 East 70th St., New York, N.Y. 10021, and 2) *A Lawyer's Manual on Community-Based Economic Development,* available for $22.00 from the National Economic Development and Law Center, 2150 Shattuck Ave., Suite 300, Berkeley, Ca. 94704, Tel. (415) 548-2600.

In examining the list closely, three areas of expectations stand out. First, employes expect *technical competence* in the ideal manager. For the CDO, we may define this attribute as follows:

> Technical competence is the capability and expertise to identify and assess opportunities for community economic improvement, identify and assemble needed resources, and supply appropriate detailed knowledge and ideas regarding operational aspects of the development process.

Second, attributes such as "*good planner and organizer*" can be interpreted as meaning employees expect *system competence* — skills in fitting all the pieces of the organization together, with the planning and organizing ability to direct them toward a desired goal. Although technical competence deals with intimate knowledge of products or services, job skills, business functions, and the like, system competence has to do with ideas and concepts. This may be defined in the following way:

> System competence is the ability to have a macro view of community needs, problems, and opportunities and to position and determine the proper fit of CDO capabilities and its development process in realizing community economic growth potential.

Third, note that *interpersonal competence* is a category that includes most of the role traits desired by employees in the profile noted. Being emphathetic, trusting, loyal,and supportive, and the rest, have to do with people. And these are the attributes that usually head the list. Above all, employees value management competence in dealing with people. The degree to which CDO management shows such competence will greatly affect the amount and quality of "fellowship" achieved in the organization and in the community. A brief definition follows:

> Interpersonal competence is the capacity to build and maintain cooperative and effective development work teams both within the CDO structure and external to the CDO.

The CDO will require the collaborative effort of individuals within different backgrounds. Management needs to create an environment of openness and trust — a supportive climate encouraging effective group problem-solving effort within a framework of high performance goals.

If the CDO has this kind of interpersonal competence, it will express itself in the way problems and challenges are isolated and defined. It will be seen in the supportive way management deals with employees in solving probiems and meeting challenges.

CDO managers should strive to gain mastery in each of these three crucial areas. Together they determine how effective management will be.

IF YOU WANT TO READ MORE

David R. Hampton, *Contemporary Management*, McGraw-Hill Book Company, New York, New York, 1977. This is an excellent basic management book. It is concisely written and full of examples and short cases. All of the management functions are covered including job evaluation and analysis.

Philip Kotler, *Marketing for Non-Profit Organizations*, Prentice-Hall, Englewood Cliffs, New Jersey, 1975. This reference supplies fundamentals in the tools, techniques, and strategies for marketing the non-profit organization.

Arthur H. Kuriloff and John M. Hemphill, Jr., *How to Start Your Own Business . . . and Succeed*, McGraw-Hill Book Company, New York, New York, 1978. This is a comprehensive practical handbook that covers all aspects of venture initiation, marketing, and management. It combines straightforward discussion with a "how-to" workbook on creating small business ventures.

Peter F. Drucker, *The Practice of Management*, Hager and Brothers, New, New York, 1954; Douglas McGregor, *The Human Side of Enterprise*, McGraw-Hill Book Company, New York, New York, 1960; Rensis Likert, *The Human Organization*, McGraw-Hill Book Company, New York, New York, 1960. These are classics that anyone assuming a managment position should need. The first reference includes timeless practical guides for planning. The second volume looks more at human styles in management and at their effects on the organization. The third deals with the health and viability of the organization and presents ways to diagnose and improve organizational effectiveness.


Community Involvement
Initial Assessment
Investment Strategy
Individual Project Planning & Packaging
Implementation
Evaluating the Development Process
association
strong association

CHAPTER VII

COMMUNITY INVOLVEMENT

CHAPTER SUMMARY

As was noted in Part 1, one of the distinguishing characteristics of community economic development is community involvement in determining its future. In this chapter, the different roles that community involvement plays in the development process are explained in Section I.1. Since most community involvement in CDOs is through CDO boards, Section II.2 is devoted to important issues such as the roles of the board in the CDO, techniques for identifying and recruiting board members, determining the composition of the board, and utilizing the board as a vehicle for further community involvement. The last section looks at other forms of citizen involvement like setting up a separate community board to which a CDO board might report, carrying out a community assessment, surveys and large public meetings, house meetings, brainstorming, etc.

HOW THE CHAPTER IS USEFUL

Community involvement is an area where there has been an incredible gap between theory and practice. There is often the lovely rhetoric about the need, importance, and joys of community involvement. Yet as anyone who has practiced in the field will attest, it is very hard work and quite prone to failure.

It is presumed that you have some form of community involvement in place and need to change it for one of two reasons: 1) your CDO is dissatisfied with its extent or quality; 2) you are shifting from an emphasis on community social services to economic development and thus need to alter the form of community involvement. The contents of this chapter should help you in either case.

VII.1 WHAT IS COMMUNITY INVOLVEMENT IN THE CONTEXT OF COMMUNITY ECONOMIC DEVELOPMENT?

There has always been community involvement in this country. Ideally, it flows naturally out of frequent communication, shared values, and a fairly even distribution of power in a given community. The New England town meeting is a frequently cited example of this ideal. However, community involvement has not always been so easy or automatic. The War of Independence can be seen as one of the first instances in this country when people had to fight to make sure they could be involved. During the nineteenth century some immigrants formed organizations with a high level of commun-

ity involvement that provided assistance to their members and elected officials to local and state office.

Consider the more recent phenomenon of community involvement as it relates to the growth of community-based organizations. Prior to the civil rights movement of the fifties and sixties, most government decisions were made by elected officials who listened primarily to lobbyists representing large corporations, or other pressure groups. Community-based organizations in poor communities had no formal procedures for addressing government, no access to decision-making, no way to take effective legal action regarding legislation seeking change by funding various programs for minorities and the poor—first directly to community groups (through OEO) and later to city and county governments (through the Model Cities program). Much of this legislation mandated the involvement of community residents in the organizations receiving funds.

Since the 1960's, community-based organizations have shifted from being single-issue groups (around specific problems of race, poverty, or disease, for example) operating from *outside* the mainstream to more broadly-based groups seeking to bring their membership *into* the mainstream. Rarely do these groups use the techniques of confrontation or the threat of violence to achieve their ends; now they are organizations of compromise and accomodation. The community whose involvement they want and need includes not only the many segments of their own geographical area, but also representatives from the private and public sectors of the larger community. An effective program for community involvement is, therefore, paramount to the success of any CDO.

In fact, from one perspective the process of getting people involved in a CDO is the process of community development itself. As such, it represents a massive social experiment bringing together diverse elements of the community. It removes the outside-insider element that was once built into the relationship between grass roots organizations and government agencies. It adds the new dimension of venture capital investment strategy to the community planning policies of the model neighborhood programs, which were formerly primarily a partnership between city government and the local community.

- Involvement from the private sector is needed, for example, to adapt lending policies to encourage private capital investment in low-income neighborhoods and to joint venture with the CDO.

- Involvement from the public sector is needed in such matters as making sure zoning laws promote the development of industrial parks, for example, or in providing paved roads, sufficient water, and enough electricity to support physical and economic growth, besides the obvious financial requirements.

- Community involvement is needed for many reasons. A CDO needs the community as consumers of its programs, to be employees in its ventures, evaluators of its activities, and to legitimize the programs by using them. Involving the community will reduce the level of

suspicion, separation, and alienation that traditionally has characterized the attitude of low-income people towards programs aimed at *helping* them. A high degree of community involvement is tangible evidence that a CDO is community controlled. Community involvement is also beneficial to the degree that it provides an orderly nonviolent way to solve community problems.

The community involvement strategy for any organization should begin with an analysis of everything the organization does, in order to determine the times, places and situations when it is in contact with its potential constituents or supporters. Then it must assess how these contacts can be systematically organized to include as many people and organizations as possible in the organization's activities.

There are many ways to institutionalize this community involvement, perhaps the most common being a board of directors that orchestrates CDO policy and goals. For this reason Section VII.2 covers different aspects of CDO board needs. Section VII.3 focuses on forms of community involvement other than through the board.

VII.2 A CDO'S BOARD OF DIRECTORS: A PRIME VEHICLE FOR COMMUNITY INVOLVEMENT

A CDO's Board of Directors is obviously a critical element in its community involvement. Its very make-up reflects a commitment to blend *downtown* with local community interests. While some types of CDOs are required by law to appoint at least 51% of their board members from among the community, all CDO boards reflect the blend of public and private support from the CDO and the larger community.

A. Major Issues that Every CDO Board Needs to Address

No matter how a CDO is funded (or the guidelines its funding sources set forth), CDO board must address four major issues:

a. It must be able to create and develop sophisticated economic development activities, while at the same time being controlled by low-income people.

It is possible for an organization to create programs that are *financially successful*, but yet have very little real impact on the people who live in the low-income community. It is also possible to use the limited resources of the CDO to develop programs that focus totally on community services, or that attempt to create new institutions, or to change the economy of that community. *So the board has to have the right mix.* Another element of this problem is the issue of control. *People in low-income communities have been programmed to death. They are always being asked to be advisors or token members in a planning process. Most low-income people have a high level of distrust for the citizen participation process.* Many believe that it is a technique used by professionals to validate their strategies with their colleagues, and to legitimize their programs with the poor. Therefore, by relinquishing

control, the CDO can demonstrate to the board member as participant and to his or her constituency in the low-income community that the program belongs to them and that it is accountable to them. This kind of credibility increases the likelihood that people will participate.

b. The board membership should be able to help you gain access to the public sector, the business sector, and the low-income community.

An implicit element of the CDO concept is that the board members are the natural vehicles to give the organization access to all of the community. It is a very simple strategy. It is based on the idea that most folks are logical, rational people. They just have different experiences and different frames of reference. The board is a place where these different kinds of people work togather, share experiences, values, beliefs, and knowledge and hammer out some new and innovative ways to develop a community, and then move out and sell everybody else in the community on becoming involved and supporting the CDO. The board is also the body that helps identify and recruit critical private and public sector linkages that may provide financial or political support, or community services that may help the CDO accomplish its mission.

c. The board should be selected and structured to insure continuity and retain accountability to the low-income community.

The board member is a marketing agent trying to create consumers of CDO programs, just like an elected official who tries to see that the needs of people from his or her area are met. That is what accountability means, and that is part of the focus of this chapter. The board of directors is responsible for maintaining a constant flow of information from the community to the organization, and back out to the community. Members should have contact with people in the community who are providing ideas and suggestions, identifying problems, and keeping track of the activities of the CDO and its programs. If a community resident attends board meetings and sees people coming late, or constantly failing to get a quorum, he or she will assume that the community is either uninterested, or too poorly organized, or too poorly informed to make the board accountable. When this kind of behavior is observed on a board, it is a reasonable conclusion that there are some problems in the citizen participation structure.

At the same time, however, a CDO board is also accountable to its funding sources, legal and fiscal, as well as its community. These accountabilities are sometimes in conflict, in which case it is the board's responsibility to move to reconcile these differences in the community's interest. If such a reconciliation is not possible, the bottom line should always be the community interest.

With these criteria in mind, your task is to identify and recruit board members to assure the broadest possible community involvement, and to employ them in effective community involvement strategies.

B. Techniques for Identifying and Recruiting Board Members

When putting together a board of directors for your CDO, your awareness of community involvement will mean selecting not only members who will give you a broad base, but also those who can provide access to people in the public and private power structures.

You need to know where the power lies in the larger region and your own community as well, because your board should combine people who are strong representatives of the community with people who have power or influence in the region. There are three techniques that have been used successfully to assess a CDO's status and connections in the community.

1. POWER-MAPPING

The first of these techniques is called power-mapping. In Chapters one and you looked at networks, assessing external factors, and viewed them as strategies for CDO success. Let us look at these same networks in terms of community involvement.

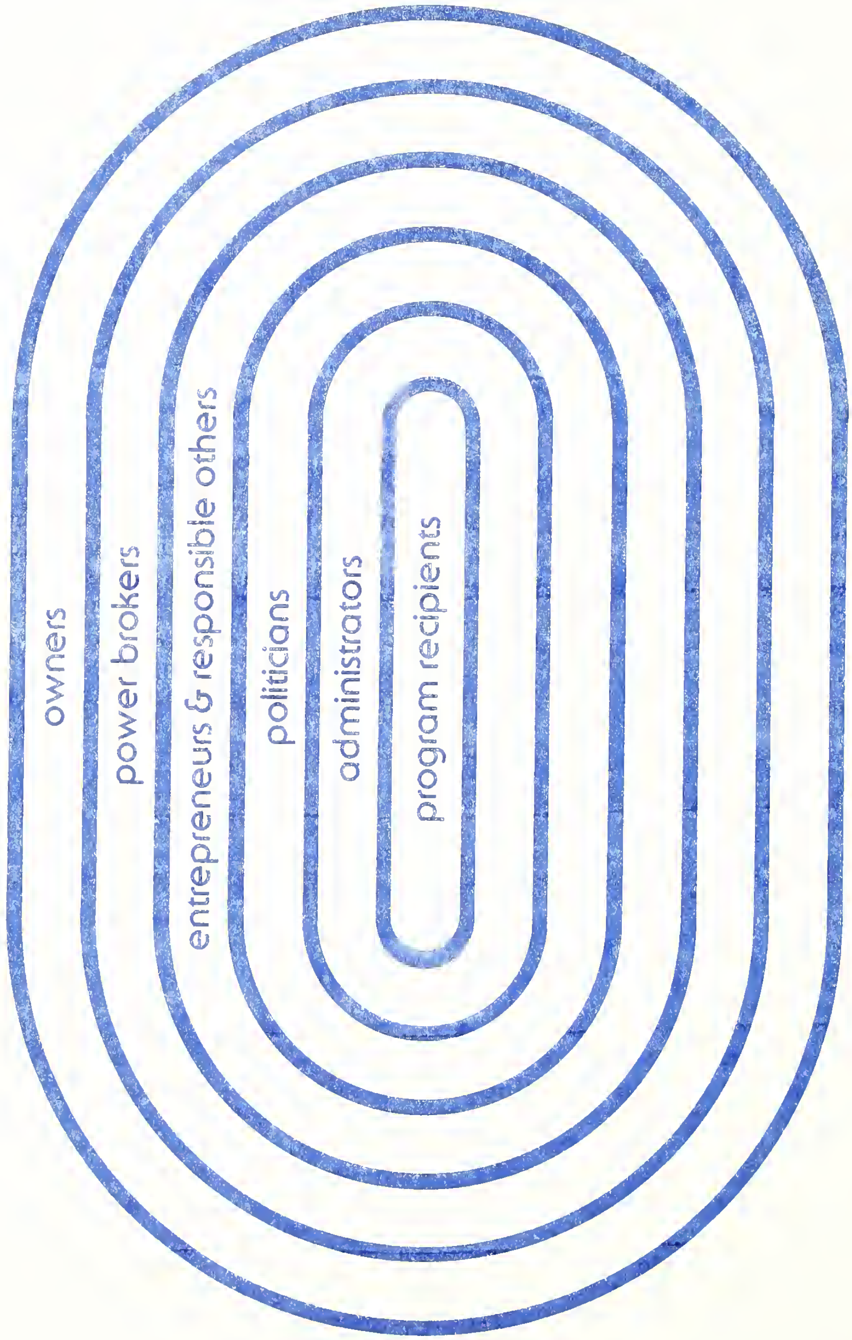
Power-mapping makes you familiar with the different types of power that affect your community —

- where it lies
- who wields it
- who the power-wielders are accountable to (their constituency)
- what power-wielders do
- what makes things happen, and *not* happen

A power map (Figure VII.1) is a series of concentric circles with *the recipients* at the center. These are the men and women in your community—those who receive programs, who buy goods and services.

At the outermost circle are *the owners*, who may be *old money*, a national or multinational corporation, or major stockholders of a local corporation. All of these owners share in common a lack of accessibility and accountability to local residents. Owners often control or heavily influence local politics and the administration of local agencies. The next circle represents *the power-brokers*, usually locally-based, highly visible corporate presidents or vice-presidents, whose responsibility it is to protect and expand corporate interests and profit. Power-brokers are accountable for their jobs to corporate boards of directors and stockholders, and will manipulate local people and resources to benefit their corporation. Although many power-brokers attempt to balance corporate with community interests (serving on civic boards, corporate scholarships, etc.), many use their positions to neutralize community grievances in order to protect owners and their investment in the corporations.

Figure VII.1


owners
power brokers
entrepreneurs & responsible others
politicians
administrators
program recipients

Entrepreneurs and *responsible others* include small business owners, local officials, clubs like Kiwanis and the Rotarians, local committee and commission members, minority representatives, lobbyists, and other politically active citizens. Unlike owners and power-brokers, this group gets its political power from activities in support of (or opposition to) local causes, issues, and candidates. Their constituencies vary:

- Clubs and local unions are accountable to their memberships,
- Lobbyists are accountable to the organization that hired them,
- Pressure groups, if incorporated, are accountable to the laws governing such groups; otherwise, they are beholden only to their membership,
- Commission members—as for example, a public utilities commission—charged with representing the interests of all the people, although in practice they often hold themselves most accountable to the elected official who appointed them—and, in many cases, to the very group they are responsible for regulating.

Politicians are elected by the community (of which "the recipients" at the center of the circle are a part) to represent their interests. Yet politicians are also influenced by the owners and the power-brokers (who make financial contributions) and the entrepreneurs and responsible others (who can marshal voter blocs to support or oppose them). When the recipients are unaware of their power to influence a politician, they cease to become part of the constituency the politician seeks to maintain.

Closest to the recipients are the *administrators*. These are the men and women who run local public agencies—welfare, employment, housing, police. Their primary functionis to make sure the rules are followed, and the status quo maintained. They are the "socializers" of the system. To a degree the users of their goods or services are their constituency, but their primary constituency is the company or public agency that employs them.

Drawing a power map for your community will show you the distribution of power, where the points of leverage are, how to cast arguments to have the greatest impact on those you are trying to reach. The name of the game for the power-wielders, after all, is to keep their constituency satisfied. The ultimate goal of the CDO, of course, is to demonstrate to the power-wielders that its constituency is also theirs.

This information will help you understand that your CDO will need a constituency large enough to be influential with these power-wielders. Also, a power map, when filled in and up to date, is an invaluable source of people for appointment to your board of directors. Sit down with your core group and identify by name or role some people you know who fit into the categories on the power map. Do not guess. If you are not sure, get out and check around. Blank areas on your map will show you where you need to do more research. Whenever you meet someone who fits into one of the slots, put him or her in. Soon you will have a complete picture of the power-wielders in your

community—broken down by type of power, constituency, and responsibility.

Incidentally, you can also use your power map to identify people who know and are related to each other so that, eventually, you can reach people you know (or others that know them) to help your CDO.

2. USING LOCAL PATTERNS

When we put together an organization, we can miss the people who could help us most — if we do not understand local practices. This is especially important for CDOs, since most are either in deprived areas, or an area dominated by one ethnic group—and will therefore have their own patterns of communication and leadership. Therefore, look for people who will help gain access to other people in the community, try to find people from those systems that are used by the community. For example, if the rumor mill is an acceptable method of communication, find out who runs it, who are its key figures, and how to get hooked in. If someone is a leader of the Parents for Public Education group and also an officer in the Elks Lodge, it does not matter whether he meets the traditional criteria for leadership, like "being an articulate spokesman for his people", or "exceptionally bright". He is a leader simply because he has followers. If one walks into a Cree Indian community in Edmonton, Alberta, and sees an elder at a time when he is not performing his official role, one may see only a little old man with no special attributes—nothing like the powerful religious leader he would appear to be during a (teepee) ceremony during a formal consultation.

To begin to understand a community, it is often useful to divide a map of a community into four quadrants (north, east, south, and west), and then with people who live or work in each quadrant try to identify:

- community institutions
- places where people congregate
- people who have followers
- community organizations
- vehicles for transmitting information
- programs, nieghborhood organizations, etc.

Record as much information as you can in the appropriate grid, including contacts within organizations, if possible, and in this way pinpoint not only people but communications systems within a given community. Sit down with some people from your community and list names and organizations to fit the categories above. The grid, like the power map, should be constantly updated and revised. See Figures VII.2 and VII.3.

3. CHECKING EXISTING CITIZEN PARTICIPATION STRUCTURES

The third technique is really quite common, and needs little elaboration here. Make a point of reviewing structures like the Community Action Agency, or the neighborhood planning council left over from the Model Cities program, to see to what extent the people included in those organizations still represent constituencies that your CDO should include.

Figure VII.2

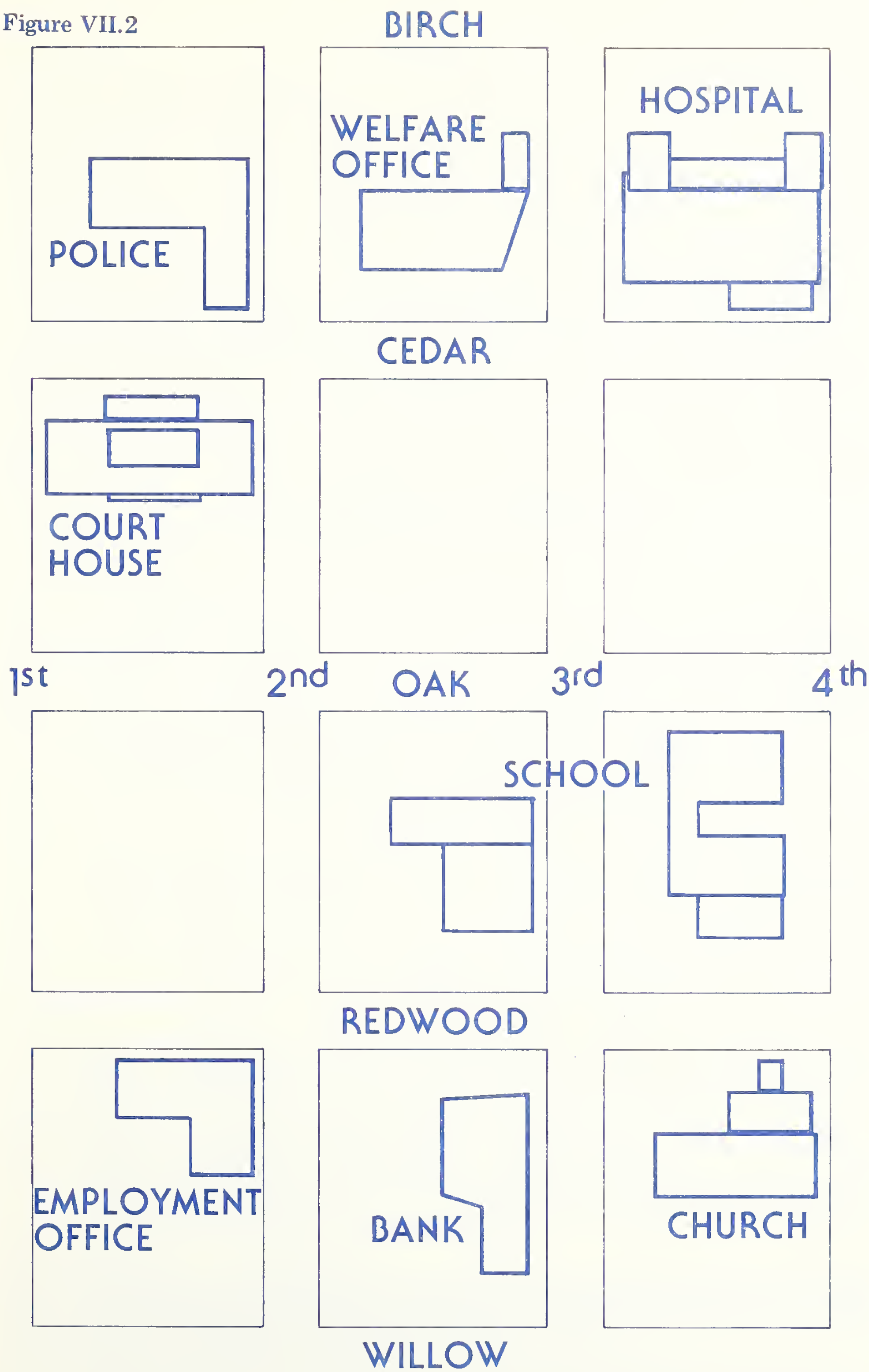
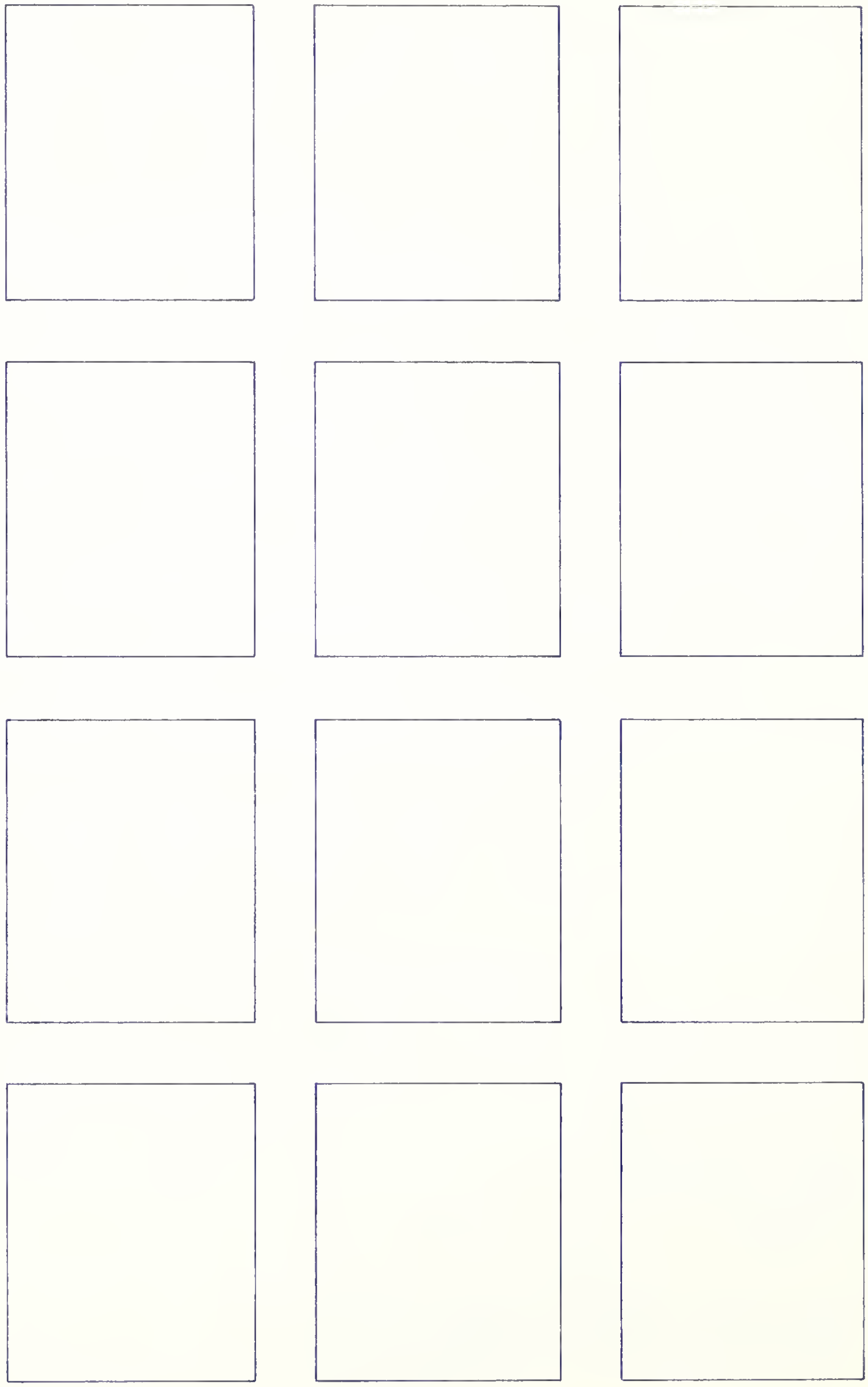

BIRCH
WELFARE OFFICE
HOSPITAL
POLICE
CEDAR
COURT HOUSE
1st
2nd
OAK
3rd
4th
SCHOOL
REDWOOD
EMPLOYMENT OFFICE
BANK
CHURCH
WILLOW

Figure VII.3



C. Determining the Composition of the Board

Each funding source for a community-based organization will have its own guidelines. For example, Community Development Corporations (CDCs) as funded by the Community Services Administration (CSA), must have boards with at least 51% of the members from the community. Whatever the specific rules, however, the intent is to cover all bases. The poor speak for the poor, mobilize and organize the poor and, when they are in the majority, will have control (unless they are divided among themselves). The professionals who sit on the board are technical experts, and offer resources to help the CDO plan and implement projects, as well as reach those in power in the large community.

To sum up, a board should be composed in such a way as to meet the following criteria:

- The low-income community must have access to the board through their representatives.
- The people in the low-income community must be represented on the board.
- The board must have some experience or expertise available to help them understand how to run a profit-making venture.
- The board must be aware of, and capable of fulfilling, its legal responsibilities as a board of directors.
- People who serve on the board must be good, effective leaders.
- The board must be able to focus on projects that will create capital-generating institutions, new jobs, and services for the community.
- The board must have sound political ties in the community.

There are four methods by which a board acquires members.

- *Direct election by other board members.* This method is the most open, and works best if communities are not too large or dispersed.
- *Indirect election.* In this method, designated groups within a community elect one or more people to represent them on the CDO board. This obviously works best when the designated groups truly represent the community—CDOs need to constantly check the groups they have chosen to be sure they are still viable.
- *Appointment.* This method is often used by a CDO board, which will appoint one or more representatives of the business community to be on its board to sit on the CDO board.
- *Organizational membership.* You can also recruit board members by

going to local community organizations like neighborhood or welfare rights groups, and asking them to send a representative to serve on your board. If there are many organizations in your community that you want to bring into the fold, this is a good method to follow.

Let's look at some sample boards (Figure VII.4).

Figure VII.4

Sample CDO Boards	
BOARD A	Representative of the Mayor's office Minority City Councilman Representative of the Medical Society Safeway Store Manager Credit Union League representative Member, Minority Businessmen's League Downtown lawyer 6 representatives of the group of individuals planning the CDO 1 representative chosen from each of the following groups: WRO, NAACP, Parents Against Discrimination, the CAP
BOARD B	Minority Banker Liberal Businessman who expressed interest Minority personnel officer at local community college who has good experience with CETA Minister from 7th Avenue Baptist Church 12 representatives of the group of individuals planning the CDO Replacements for any of the above to be selected by the remaining board members
BOARD C	Banker Doctor Food store executive 4 representatives of the credit union members 4 representatives of the food buying club customers 4 representatives elected at large from community residents 1 representative each from WRO, NAACP, PAD, CAP

On *Board A*, the representative from the Mayor's Office, the minority city councilman, the representative of the medical society, the Safeway Store manager, the member of the minority business league, and the downtown lawyer are probably appointed. The six representatives of the group planning the CDO are elected directly by the members, and the remaining have been elected indirectly by other specified groups.

Board C has only four representatives elected directly, and sixteen elected indirectly. *Board A* tends to the political. *Board B* to a business orientation, and *Board C* has a larger majority of program recipients than the others. But what all three boards have in common is an attempt at diversity and majority representation of the poor.

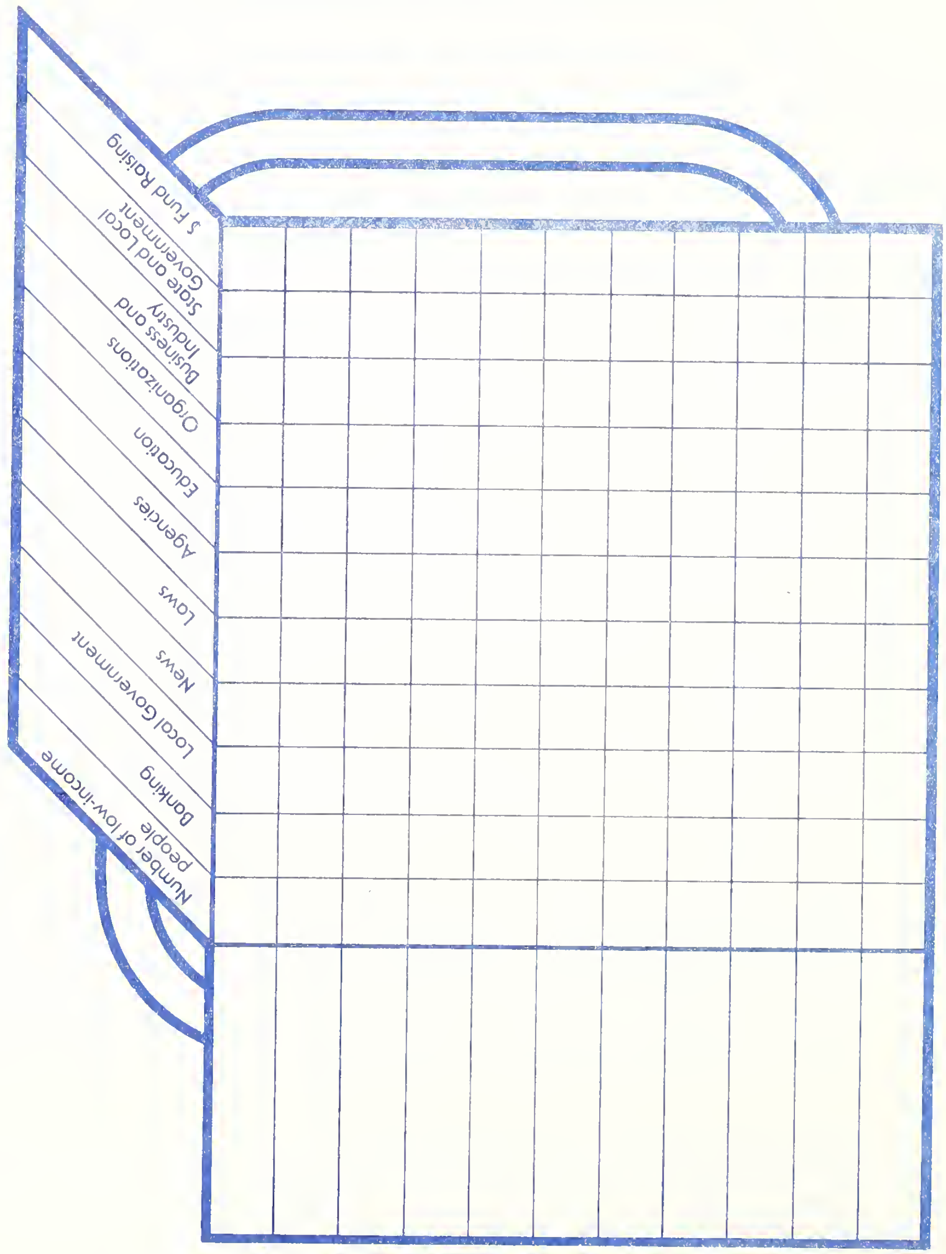
Figure VII.5

	BOB BLACK	SALLY SMITH	JOSE PEREZ	STAN SCHER	RALPH RITZ	MARY MINOR	STEVE ARCHER	SUE BELL	BILL ANDERSON	SAM FATHERS	IRMA RODRIGUEZ
$ Fund Raising					×						
State and Local Government					×						
Business and Industry			×								
Organizations		×					×	×	×		×
Education		×									×
Agencies				×				×	×		
Laws							×				
News						×					
Local Government				×						×	
Banking	×										
Number of low-income people	×	×	×			×	×	×	×	×	×

Take a look at the sample matrix (Figure VII.5). Assume that the names in the left-hand column are board members of a CDO, and that the contacts across the top are crucial to board functioning. The question to ask is how

well do they have the bases covered. If you would like to ask the same question of your CDO, try completing the blank matrix (Figure VII.6).

Figure VII.6



D. Employing Board Members in Community Involvement Strategies

Once you have a diverse board of directors, how can you best employ them to further your community involvement efforts? Here are some suggested techniques that have been successfully used:

1. *Encourage board members to report back to their constituencies.*

When a board member is not required to report back to his or her community, the real level of community involvement stops with that board member. The board member who comes to the board as an elected representative of a group has a natural constituency in that group. One way you can increase involvement of residents in your community, is to establish a formal or informal organization that your board members report to.

One method of increasing accountability is to have your staff organize a membership structure that calls for the board member to report directly to the membership. This is the case with the CEDC of Nassau County, a CDO in Long Island, New York.

Its board members are elected representatives from their communities. They sit on the Area Council's economic development committee, and as such are required to report the activities of the CDO to the Area Council. The poverty program staff helps to maintain the councils, and a CDO staff member assists the local economic development committee.

2. *Ask board members to identify leaders and decisionmakers in their neighborhoods, and help put together a plan and timetable for reaching them.* House meetings can be held to inform people of your CDO's programs.

3. *Make use of the contacts of your board members from the professional or public sector.* These members might also be members of the chamber of commerce, the planning commission, the Civil Service Commission, or the mental health board.

They may have contacts with banks or businesses that your CDO needs. These program boards and members can report to their organizations, arrange for CDO's staff to make presentations, or seek commitments from these other groups to assist the CDO in accomplishing some aspect of its mission.

4. *Involve community members on board committees responsible for reviewing and selecting new projects.* These are areas in which the community is perhaps most interested, and having representatives on these committees will help get grassroots input—and will also provide a means for explaining decisions that are made. Although many CDO staff and professionals place a high degree of emphasis on getting the job done and meeting program objectives, it is important not to under-represent community representatives, who will probably place relatively higher emphasis on how a given program will affect a community. You should be sure to include on committees community residents who:

- *set organization priorities, and develop goals and objectives.* A community board member can be educated by going through the process of setting priorities, for example, and can in turn educate his or her neighbors. The professional sitting in turn will also gain perspective on how the community perceives and responds to its problems.

- *establish investment criteria.* Aside from the above, the community resident may have needs or values that will require special clauses in the investment criteria of the corporation-"the CDO will only invest in ventures that employ at lease 50% minority managers", for example, or "the CDO will invest in only those industries with no adverse effects on the environment".

- *selecting new ventures.* This, too, is an educational experience, which a community resident member can then share with his constituents.

Incidentally, when a CDO forms a non-profit venture, it is a good idea to include some community residents on that board as well.

Finally, of course, all board members should be considered as public relations people for your CDO in whatever they do. The more people from the community who see their friends and colleagues acting in behalf of the CDO, the more credible it will be to them. Consider publishing synopses of committee reports in a newsletter, or a local community newspaper. Place board members on critical decision-making or public service boards. Select key board members to participate in ceremonies such as annual meetings or groundbreakings as speakers, or presenters (or recipients) of awards.

In the long run, a community involvement strategy is most effective when it stems from an attitude in which you examine every part of your CDO's activities and ask the question, "How can I use this activity to get more people involved with our organization?"

VII.3 GETTING COMMUNITY RESIDENTS INVOLVED IN WAYS OTHER THAN BOARDS

It is useful to distinguish between two forms of getting community residents involved through non-CDO Board activities. The first form involves on-going activities and the second is project related one time activities. In the last section it was noted that it is often useful to set up a Community Board in order to get increased community input into decision making. This represents an ongoing effort.

There are cases where you may want a working partnership with specific community interests as part of a project. An excellent example is the case of an informal local merchant group that your CDO is working with to promote commercial revitalization. Another case could be a formal group like a Local Development Corporation (LDC). Then you might want to set up a task force comprised of members from the CDO Board, Community Board, and the LDC. The member(s) of the CDO Board on the Task Force could keep the CDO informed and could request the aid of the CDO staff whenever necessary.

A. Issues in Determining Membership Criteria for the Community Board

Membership recruitment should be considered part of a long-range socialization process, designed to prepare community residents to be consumers of CDO programs. Residents should have a history of good experiences with you. If you build a shopping center or a bank, your success will depend upon attracting local residents. One part of your membership strategy, therefore, should be to involve them during the planning stages and prepare them. The Bank of America has had years to socialize customers through media campaigns and their very presence. You may not have their advertising dollars or history, but you can achieve much the same effect by letting your community know what you are doing, and involving them whenever you can.

Membership recruitment should be considered in light of the effect it will have on local politicians and bureaucracies. If you design your membership structure so that everyone in your community is automatically a member, you have a large membership, but no mechanism for providing your membership's commitment. Setting criteria—paying dues, membership in a neighborhood task force, or an affiliated community organization—means you have a smaller, but more committed, accountable membership. For politicians, who deal in tangibles, this type of committed membership will probably have greater impact.

In planning and developing a membership base, keep in mind one important rule: *people only get involved in an organization to do what they want to do.* This often means that the initial contact between a potential member and your CDO will involve helping that person do something that is possibly of more interest to him or her than to you. Siete del Norte, a CDC in New Mexico, has a small community development fund it uses first to bring people into their organization and then to educate them. The CDC staff recruits and assists community groups to identify projects that need developing, and helps them get funding through Siete, or some other source. For example, in working to develop industries in Northern New Mexico that will provide jobs for displaced small farmers and farmworkers, they ran across a group of farmers who were losing money growing apples. One sound membership strategy would first be to help them put together an apple co-op, and, once that was accomplished, work with them around issues of more direct concern to your CDO. This is an effective approach in rural areas with dispersed populations, because it creates small working constituencies who can point to tangible results of their involvement right in their widely scattered communities.

Community Economic Development Corporation (CEDC) in Nassau County, New York, uses another effective method of building a constituency, one that, again, emphasizes (at least at first) the solution of problems community residents find important, rather than selling the long-term advantages of a CDO. CEDC Nassau County is comprised of a poverty area of eleven townships, an area council, each of which in turn maintains an economic development committee. The chairman of each committee is the low-income representative on the board of directors of the CDO. The significance of this structure is that community residents have access to their CDO through these chairmen and can take problems to them. If they are beyond the scope of the

CDO, the chairmen can take them to the larger area council, where a representative from the Community Action Program (CAP) for example, may be able to do something.

Another membership strategy is to organize organizations. Denver Community Development Corporation (DCDC) put together a board consisting mostly of representatives from local community and business organizations, thereby giving DCDC immediate access to people already informed and organized—in other words, a ready-made constituency.

B. A Community Assessment—More than Just Information-Gathering

Finding out what people want is a way of getting them involved. Conducting a needs assessment gets people involved in the initial planning stages, and that creates a constituency when the program is ready to fly. Examining community needs is much more than a process of information-gathering. If you look around, most of the data you would want—on employment, per capita income, or housing—you can probably find right next door in a local planning or service agency. However, a needs assessment in which you go directly to the community can be a very effective constituency-building strategy. Of course, there are limitations. If you are working against an early deadline for funding, you may not have time to go to the community at large. Nor is it the least expensive method of gathering information. Still, the concept of broad community involvement in a CDO's needs assessment has several major advantages:

- *You do not always know what people need.* A community college eager to tap federal monies attempted to enroll Indians from a nearby reservation. Because they needed Indian students, they assumed that the tribe needed a group of educated young people and that all they had to do was offer. What they discovered was that the young people on the reservation were needed by the community to carry in water to the reservation. What the Indians proposed was that the college use its vast resources to get a water line into the reservation so that the Indians would have the leisure to consider whether or not they wanted an education.

- *You do not always know what people want.* The classic assumption is that everyone wants a guaranteed income when in fact many people want guaranteed jobs. CDOs often presume people want things to stay pretty much as they are—that if a community is agricultural, its residents want it to stay that way. This may not be true.

- *Finding out what people want is a way of getting them involved.* A standard planning technique, called "protecting the soluction," is also a good organizing tool. Ask a group of people to picture the solution to a problem they experience. Ask them to describe the picture they see, to tell you what the community will look like. If possible, draw their descriptions, and involve them in drawing them. Get people to share others' visions. Above all, record these images and keep them as useful planning data.

- *When you get people what they want, you have a population using what you offer.* There's nothing worse than the program based on presumed needs which has no customers. On the other hand, the group that wants the CDO to fix up and reopen a movie theater so their kids will not have to go across town is the group that will patronize the theater once it opens. They will be even more frequent users if they have had a part in getting the theater open, as well as planning for its opening.

- *Finding out what people want is a way of building a constituency.* A good organizer knows that a prime motivator is self-interest, so he or she builds a constituency by finding out what people want. He or she gets people interested in the CDO by showing interest in them.

- *Finding out what people want is a way of identifying areas in which you can ask for their help. You can always count on people to help you get what THEY want.* Probably the biggest organizing job is getting people to work with you. Knowing people's interests (and keeping their names, interests, and history of success with you on file cards) will enable you to decide who to call for a specific project — Mrs. Jones, for example, on anything having to do with creating food co-ops, or Rebecca Ramirez when it comes to childcare centers.

What about a needs assessment that focuses primarily on gathering information, rather than involving the community? It is usually cheaper, and more efficient to go to existing data sources. Some CDOs with limited staff but sufficient funds will hire a consulting firm to gather and interpret the data. This does not commit staff time, but neither does it necessarily involve community people directly. In other words, using staff or outside consultants to perform strictly information-gathering services in which they have specific skills may accomplish the job of information-gathering, but at the cost of not involving community residents.

C. Information-Gathering as a Tool for Organizing Community Involvement

When you set about doing a needs assessment in a community, make sure to look at the formal and informal communication networks there—at the pool hall, the barber shop, in line at the grocery, standing on the corner, at the union hall, and outside the church on Sunday mornings.

D. Some Specific Methods of Communicating, and Their Pros and Cons

Surveys. They can be used in needs assessments and in program evaluations. At least five types have been used: door-to-door, neighborhood survey, random sampling, and mail or phone surveys. All provide *some* possibility for contact with your constituency, although mail surveys are not very effective unless the organization already has had lots of contact with respondents and a high degree of credibility. By and large, however, most people do not fill out mailed questionnaires. Random sampling provides limited contact. It offers the possibility of getting direct feedback from community residents, and also opportunities to follow up on the feedback.

This technique requires that the surveyers be well trained, and that they have a thorough knowledge of the organization they represent so that they can give accurate and consistent information to those they survey. This technique can be expensive. However, it can also be effective. The California State Economic Opportunity Office helped Hub-City Developers train youth from CETA programs to compolete a survey which ultimately led to the development of a committee which then submitted a planning proposal to EDA.

E. Large Public Meetings

They are excellent vehicles for developing initial contacts and, if properly set up, can produce support or participation in a program. However, large meetings can intimidate some people, especially if they do not know each other well, or come from diverse educational backgrounds, leaving a few who dominate. Also, large meetings are better for transmitting than for receiving information. The latter function operates best in *small groups*. In small groups people are more likely to give feedback, moral support, and make commitments to participate actively—in other words, to become more involved. Some techniques to get small-group advantages from large-group meetings is to break the people into small groups, and have a presenter address each small group, one at a time (or several presenters address the groups simultaneously), followed by a question-and-answer session. Make sure you are prepared to tag people for follow-up activities they express an interest in. Their names, interests, and skills should be categorized and filed.

F. House Meetings (Self-Interest Groups)

When people in a neighborhood have identified a common problem, or have a common interest, the small-group meeting with them can be a productive way to get information and community involvement at the same time. It involves people in the CDO through issues they are already interested in. By being involved in the early stages of a CDO project they are more prepared to take some responsibility for the outcome, rather than blaming you as the "fixit man" when things go wrong. These meetings also help you identify and develop community leaders. Meeting on people's home turf will also tend to make them more honest and forthcoming, especially if the number of people is kept small (ten or twelve), and limited to those who already know each other. Incidentally, this type of group makes an excellent setting for a CDO board member reporting on activities to a small part of his constituency.

G. Brainstorming

Before expressing an idea, most of the time people spend a good deal of time trying to decide if anyone is opposed to the idea and if he or she has a whole set or arguments to destroy it. When someone does present an idea, usually it is considerably diluted. Brainstorming is a process for encouraging people in groups to express their ideas without worrying about being criticized. Every idea contributed is recorded without editing or criticism. In a brainstorming session, people can say whatever they want and have it recorded on paper, no questions asked. Everyone contributes, so everyone "owns" the results. This is time-consuming, but worthwhile in terms of involving people.

H. Community Involvement: Important At Every State of A CDO's Operations

Community involvement can, and should, be built into every aspect of a CDO's operations beyond needs assessment, planning (with its goal-setting and prioritizing components), implementation, and evaluation. In each of these steps, of course, as for the needs assessment phase, there will be trade-offs between total community involvement on the one hand, and total efficiency on the other.

Hiring an outside firm to provide goal-setting and prioritizing, for example, might save time and include skills not available within the CDO itself, but at a cost in getting the community involved. Using the CDO board in setting goals and objectives is worthwhile if the board has:

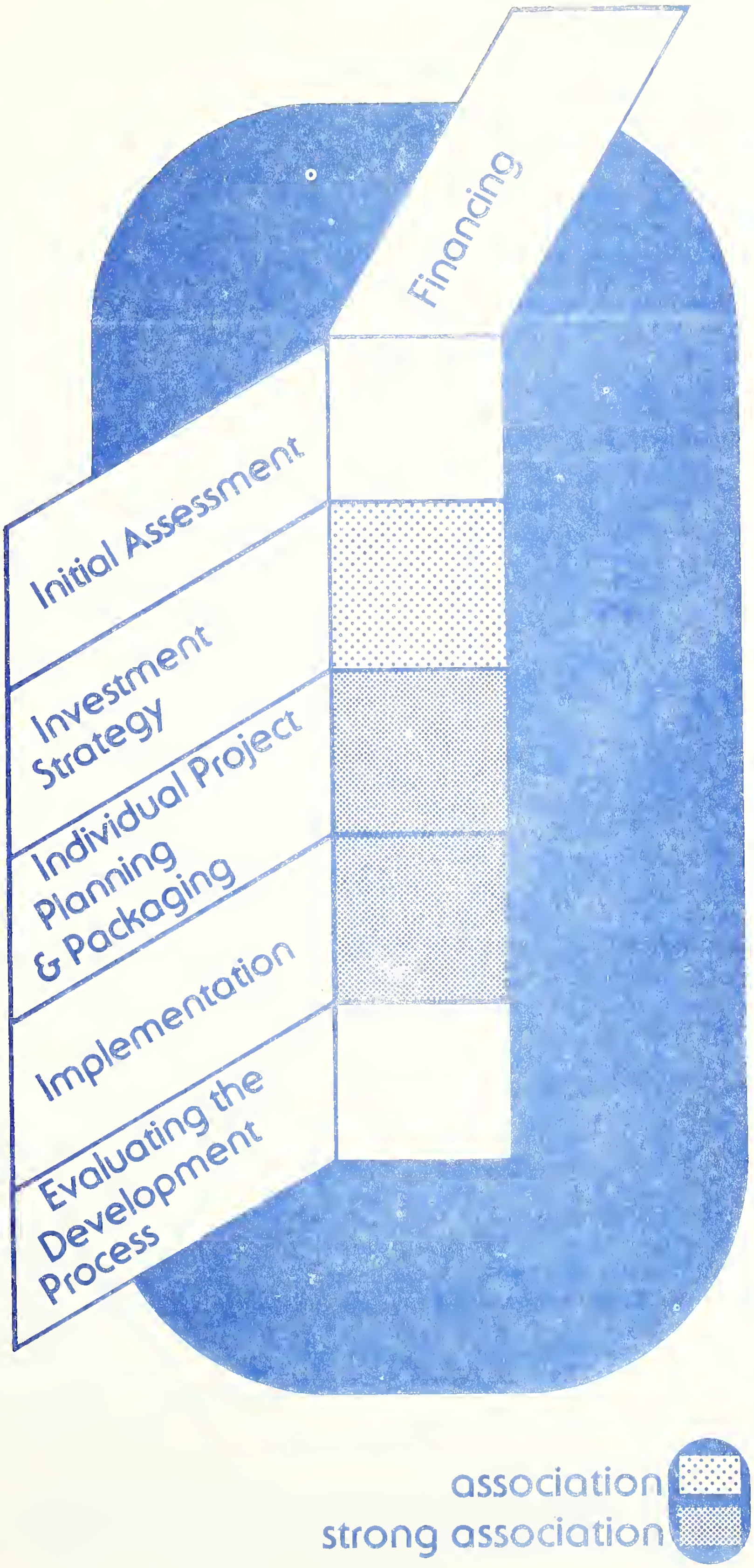
- an identifiable constituency with whom they have credibility
- enough time, and proximity to their constituents
- established procedures for relaying information

Otherwise, the process can be time-consuming and burdensome to a volunteer board of directors.

If you have involved special-interest groups (like housing task forces or senior citizen centers) you have a natural vehicle for continuing into the prioritizing and goal-setting stages. The same holds true if you are working with community organizations such as Black or civil rights groups. If such groups are not organized when your CDO enters its planning phase, this method of gathering information is expensive in staff time.

Some CDOs use staff and consultants to compile data from a needs assessment; the staff then interprets the data, evaluates resources and capabilities, and presents an economic development strategy to the board and/or to community organizations. A variation in this strategy is for the staff to identify major needs, and then ask the board to prioritize them. Staff then follows up on this activity by preparing an economic development strategy based on the board's priorities.

In general, almost any activity of your organization should be assessed as a potential means to encourage community involvement. Try to determine the opportunities it provides for recruitment, feedback, or follow-up. If including a community involvement component means sacrificing something in operational efficiency, the gain in community support and participation in your programs may in the long run be more than worth it.



Financing
Initial Assessment
Investment Strategy
Individual Project Planning & Packaging
Implementation
Evaluating the Development Process
association
strong association

CHAPTER VIII

FINANCING

CHAPTER SUMMARY

In order to implement any significant economic development effort a CDO will need money. This financial need will be met either by organizations such as banks, savings and loans, etc., that loan money to make a profit or by institutions like government agencies, foundations, etc., that have some social goals they wish to pursue.

This chapter examines the different types of financing requirements that CDOs have in Section VIII.1; it then explains given a particular requirement which specific insitutions to go to and what is the process of applying for the money. A deliberate choice has been made to emphasize the process rather than to offer another comprehensive listing of all financial resources available. Sections VIII.2 explains the workings of the private capital market, and given a financial need which type of institution to go to. It concludes with an overview of the process one goes through to get the money. Section VIII.3 does essentially the same task for the non-profit sector including government agencies, private foundations, community trusts, and other non-profit organizations. Appendix B provides a listing of the government programs that have some money available for community economic development.

HOW THE CHAPTER IS USEFUL

This chapter is useful in two ways. Once your CDO has decided to plan and implement a project (Chapter III of the Handbook), it can help by showing which kind of institution should be investigated. Second, it presents useful guidelines to follow in requesting the money.

Since most CDOs have already been exposed to grantmanship, there is particular emphasis on explaining the vast variety of financial institutions and the functions they serve. While in most cases the private capital market is sufficiently complex that an expert will be required, knowing the vocabulary of finance should make it easier to work with one.

VIII.1 THE CDO's DIFFERENT NEEDS FOR MONEY

The CDOs requirement for money may be broken down into five categories:

- Money to run, under contract, social programs that are tied to economic development.

- Money for administrative overhead for both the day to day running of the CDO and for proposal development.

- Money to plan for community economic development.

- Money to develop detailed plans for projects like industrial parks, commercial revitalizations.

- Money to implement business development projects.

As one goes down the list, the money becomes increasingly difficult for a CDO to obtain. It is an integral part of the growth of a CDO to develop a capital base that allows it to have money available for all five activities.

Traditionally, CDOs have had considerable difficulty obtaining money from the private capital market. There are two reasons for this. Firstly, a CDO is simply an unknown quantity to a financial institution, and secondly, often a CDO does not go to the right institution for the need. Often a beginning CDO will go to a neighborhood bank for venture capital financing and be turned down. The CDO may think the bank is discriminating yet the bank may never give such loans. The CDO should have gone to the Small Business Administration or to a Business Development Center. Section VIII.2 should help in avoiding this mistake.

CDOs will almost never have enough resources at their disposal considering the magnitude of the task of community economic development. Thus besides stressing the obvious need for efficiency, CDOs have to be able to leverage their resources.

The simplest example of leveraging is buying a house. Suppose you have $10,000 and you use it for a 20% down payment on a house costing $50,000. Then you, in some sense, have control over $50,000 even though you really have $10,000 equity in the home. Then you have leveraged your money five times. This means that if the price of the house went up to $70,000, in a year then your equity would increase to $30,000 and you would have made a 200% return on equity (before subtracting all the costs involved). If the price of the house fell to $40,000 in a year, however, then you would have experienced a 100% loss. Now if the house had fallen below $40,000 then besides losing your equity you may be losing your shirt and may decide to let the bank foreclose on the house.

In high finance, leveraging can be far more complex than this simple example would suggest. In the public sector, the concept of leveraging is used somewhat differently. One is not trying to maximize profit but economic impact on the community. Government agencies are always looking for good clients to utilize their grants and loans according to both the intent and the letter of the law that mandates the agency. Often if one agency gives your CDO money, then others are also more likely to consider you. If the Office of Neighborhood Development in HUD gives a CDO $100,000 for planning and commercial revitalization, the EDA will be more forthcoming with a larger

amount, say $1,000,000, for implementation. Government agencies like to be seen coordinating their efforts these days.

The ideal method for a CDO to leverage its money is to take some initial grant from the public sector or private foundation and utilize it to get further capital from private financial institutions. Besides the obvious route of functioning on a project by project basis, the better way is to get investment and development company loans from the Small Business Administration (SBA). The main programs under this category are Small Business Investment Companies (SBICs), Minority Enterprise Small Business Investment Company (MESBICs) and Local Development Companies (LDCs). The details about these programs may be found in the book *Sources of Capital for Community Economic Development* cited at the end of Section VIII.2. If your community has a large minority, you will want to visit your local Business Development Center under the Office of Minority Business Enterprises (OMBE). They offer a great variety of services closely tied to the Small Business Administration (SBA), services desperately needed by any CDO moving into economic development. One such center, for instance, has the following goals:

- Increase the number of minority business starts
- Strengthen existing minority businesses
- Provide management services and technical assistance to upgrade the financial, marketing and management skills of minority business entrepreneurs in all functional areas of business
- Serve as a liaison for obtaining contract procurement opportunities, and provide for technical assistance for bidding on contracts
- Work with city, county and state agencies in implementing employment training placement whenever applicable
- Organize and coordinate minority small business associations

Figure VIII.1 illustrates an excellent case of leveraging public capital (from EDA and CSA) with private capital. The public money is being used mostly for the purchase of property and building infrastructure, individual buildings in the industrial park are mostly being financed by the private sector. Figure VIII.2 illustrates the TELACU Investment Company Incorporated (TIC) and MESBIC at start up and with an additional loan of $700,000 from SBA. The MESBIC with TELACU buys into established businesses and utilizes the profits to finance some of the various needs noted at the beginning of this chapter.

Figure VIII.3 shows another example of combining public and private money. It also shows the wide flexibility of Community Development Block Grants (CDBG) from HUD. A short background on how these funds came to be utilized might be useful.

Figure VIII.1

Telacu Industrial Park, Inc.

1.	Purchase of old vacated B. F. Goodrich Tire Plant of 47 acres for conversion into an industrial park.		
	A.	Ford Foundation Loan (@8%)	$1,000,000
		Crocker National Bank Loan (2 1/2% over prime)	4,000,000
			$5,000,000
2.	E. D. A. Grant (to be used for)		3,636,400
	A.	Demolition	
	B.	Road	
	C.	Off-site Improvements	
	D.	Rehabilitation of Building No.1	
3.	CSA Grant of $1,218,700 (to be used for)		
	A.	Placed in Escrow for interest payments on the $5,000,000 for purchase of property	750,000
	B.	Venture Capital	468,700
			$1,218,000
4.	Office Building for the Industrial Park		
	A.	E.D.A. Grant	4,000,000
	B.	Guaranteed Loan (E.D.A.)	4,000,000

NOTE: As space is leased to different manufacturing firms most of the capital is being raised from the private capital market.

FIGURE VIII.2

Telacu Investment Company Incorporated

A MESBIC

1975 Start-up Equity Capital

CSA	$ 700,000
SBA (50% ownership)	700,000
	$1,400,000

1977 Expansion Loan

Long-term financing from SBA (4.5% during first 5 years, 7.5% during second 5 years	700,000
Total capital resources available for creating, buying or partial ownership in ventures=	$2,100,000

FIGURE VIII.3

Hollywood Revitalization Committee Inc. (HRC)
Budget 1978-79

	CDBG	PRIVATE CAPITAL	TOTAL
Basic corporation administration	$125,000	$ 6,000	$131,000
Economic Studies	70,000	30,000	100,000
Commercial Rehabilitation Project			
a) Administration	12,000		12,000
b) Architectural Service Fees	22,000	33,000	55,000
c) Loan subsidy* 22 participants borrowing $10,000 each	27,027	220,000	247,027
d) Public Works Improvement for Area	150,000	---	150,000
Area Non-eligible Participant Rehabilitation			
Fredericks of Hollywood	---	250,000	250,000
B. Dalton Pickwick Bookstores	---	25,000	25,000
J.J. Newberry	---	50,000	50,000
Area March Association Activities	2,500	7,000	9,500
	$408,527	$621,000	$1,029,527

*On a $220,000 loan borrowed at 15% interest, a 4% subsidy is paid on approval of the loan. Thus, the effective interest rate is less than 11%.

The Hollywood Revitalization Committee Incorporated (HRC), was initiated by the local city council representative in response to community demand for commercial revitalization in an area stereotyped as crime ridden and blighted.

CDBG funds were used for a socio-economic assessment of Hollywood under the leadership of the city's Office of Economic Development. That report is used by the corporation as a guiding document for many different programs.

Administration costs of projects are provided by CDBG and other sources. Current programs include commercial rehabilitation services, residential neighborhood organizing, support of local community cultural programs, and a community information resource center.

There are two lessons to be learned from the example of HRC. One, CDBG funds are extremely flexible and HRC has certainly not exhausted the possibilities, and two, the process requires considerable political support from the local political representative.

VIII.2 FINANCING COMMUNITY ECONOMIC DEVELOPMENT THROUGH THE PRIVATE CAPITAL MARKET

This section describes the private capital market, outlines the various sources of financing within the market, and discusses how best to secure private financing. The section is not intended to provide a comprehensive discussion of the subject, but rather offers an introduction to the capital market. A short bibliography is included at the end of the chapter for your further reference.

The section is divided into four sub-sections. First an overview of the private capital market is provided along with a discussion of its function, scope, basic characteristics, and a diagram showing the flow of funds within the market. Second, there is discussion on the different criteria used by the CDOs and capital suppliers in defining and evaluating a specific project. The third sub-section presents basic elements in the successful approach to packaging a business and obtaining project financing. The fourth section 1) lists the various institutions within the private capital market, 2) lists the types of private financing available and how used, and 3) combines the two lists to explain matching financing needs with the source institutions.

A. The Private Capital Market

The private finance market is a group of institutions and individuals acting as intermediaries - collecting the savings and extra cash from individuals and businesses and making it available for loans and investments. Over time these institutions have developed a relatively sophisticated and efficient network of communications and cash transfers. This network enables the institutions to function in such a cohesive manner on a national scale that when people refer to the "money market", or the "capital market" or the "retail finance market", they have no need to define the market either by location or type of institution. Despite its internal complexity and sophistication, however, the finance market essentially serves only two functions: 1) the collection of savings and excess cash from businesses and individuals (at a cost to the institutions), and 2) the disbursement of loans and investments (at a profit to the institutions).

The institutions within the private finance sector channel funds to individuals, to companies and to each other. Each of these users comprise different "markets". The same institutions often supply funds to all three markets, and the markets are interrelated in many ways. However, markets are defined solely by who uses the funds. The three private finance markets in the United States, as defined above, are referred to as follows:

- Individual users — The retail credit market, or retail finance market, or consumer credit market.

- Business users — the private capital market, or private investment and commercial credit markets.

- Financial intermediary users — the money market.

In this section we will discuss only the *private capital market*, the market involving commercial loans and investments as this will be the source of private financing for community economic development.

The institutions comprising the private capital market are probably most clearly defined by their source of funds. Using this delineation, there are three basic categories.

- Primary suppliers — individuals and businesses which lend or invest money without the use of an intermediary institution. Examples of this are "trade credit" and, at the other end, individual investments via the stock market or private placements.

- Primary intermediaries — institutions that function as a depository for individual and business savings. The three primary types of institutions in this category are banks, savings & loans, and insurance companies.

- Secondary intermediaries — suppliers of finance which receive their funds from the primary intermediaries, and do not themselves act as depositories. The major types of institutions within this category are finance companies, industrial banks, and mortgage loan companies.

Figure VIII.4 shows the money flow between the three levels of suppliers and users. A more detailed description of the institutions within the private capital market categories by "level of supplier" is included at the end of this section.

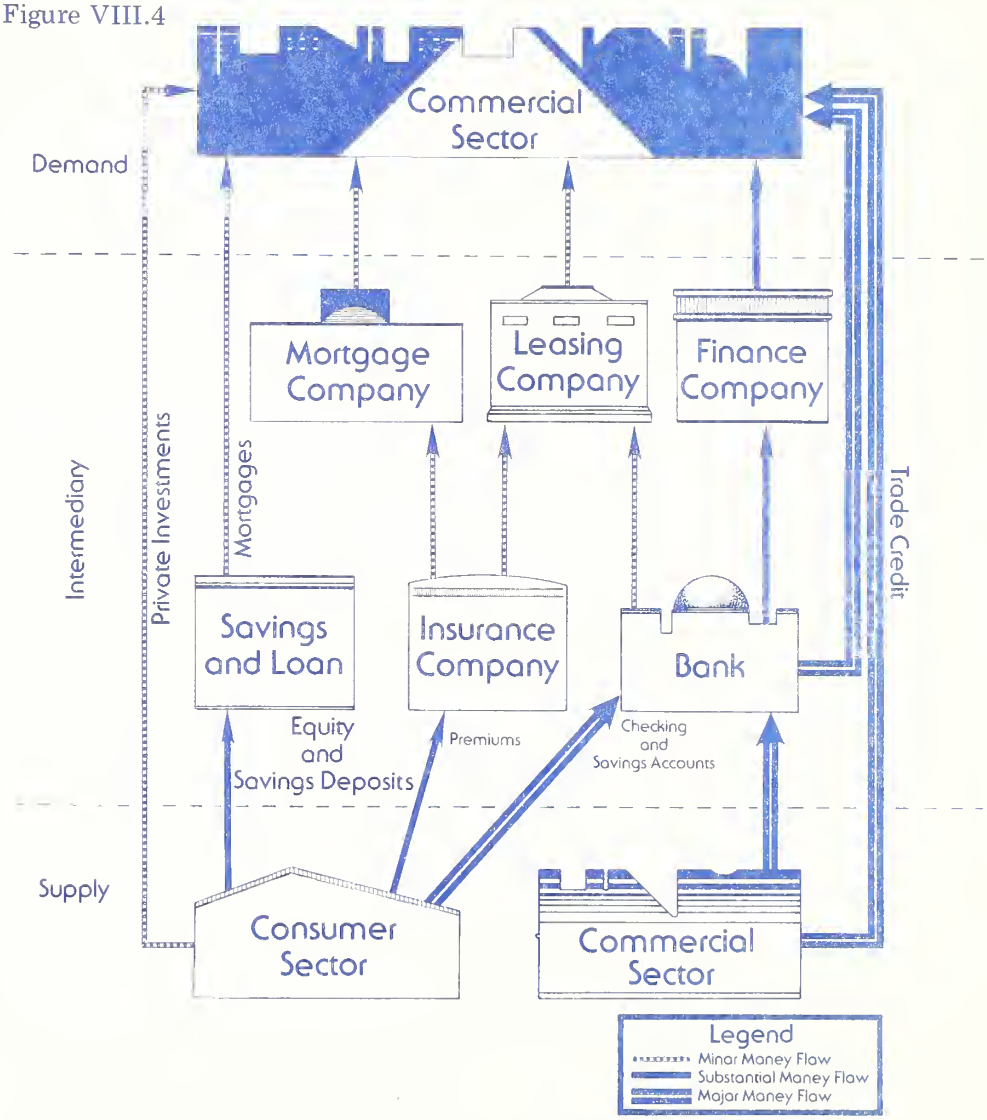
Although the capital market has a variety of institutions within it, there are several common characteristics:

- The capital market is highly competitive both in seeking funds and soliciting customers. The competition by banks and Savings & Loan Association deposits is obvious through their tremendous advertising efforts. The competition by banks for commercial deposits, and the competition by the secondary intermediaries for bank financing is just as strong, if not as well publicized. On the reverse side, all institutions compete for portfolio loans which meet their criteria for quality and risk. "Good" borrowers are as sought after as reliable depositors.

- A result of this competition is the small variance between institutions of similar kind. Because money is a product which does not have a brand name or quality difference, the only areas in which institutions can compete are price (rate) or service. The differences that do exist between like institutions are usually due more to individuals within the institutions rather than formal corporate policies and purposes.

- A third characteristic of the capital market is conservatism. Although the capital market ranges from venture capital, involving high risks and a high return, to secured lending, involving minimum risk and low return, the bulk of the funds available are provided on a low risk—low return basis. The reasons for this are quite simple:

Figure VIII.4



1. Most of the funds available to the capital market enter the market through primary intermediaries. In order to protect the depositors, the loan and investment policies of these institutions are highly regulated. The regulatory bodies favor minimizing losses rather than maximizing profits.

2. The return on a "successful" venture capital investment can be very high and has no ceiling, while the return on a "good" loan is relatively low and has a definite ceiling. Because the lending institutions are limited in the profit they can make on good loans, they have very little margin with which to absorb losses on bad loans, and therefore must follow a conservative loan policy.

B. Defining the Type of Financing

In planning a new project it is essential to clearly define the necessary type of financing. Failure to do so results not only in wasted time and effort, but may also produce unnecessary confusion and, occassionally, unnecessary failure.

From the CDC's point of view, a project's financing requirements are clearly defined by the purpose for which the funds will be used. The purposes and the amounts are derived from the business plan and cash flow projections for the project as discussed in Chapter III. The capital market institutions, however, define your financing reaquirements by an entirely different set of criteria. To succeed in financing your project, you must define your financing needs using both your criteria and the capital market's criteria.

The criteria used by lenders to analyze a financing package reflect their concerns. These concerns can be grouped into six basic criteria:

- *Term* — When and at what rate will the invested funds and interest be repaid? How does this correspond with the supplier's source of funds and their stability?
- *Risk* — What is the primary source of repayment and what is the probability that the invested funds will be repaid from this source? Is there a secondary source of repayment and what is the probability that the funds will be repaid from that source if the primary source of payment fails to materialize?
- *Administrative Cost* — How much time and effort per dollar lent or invested will be required to insure proper repayment and adequate control?
- *Return* — What is the rate-of-return to the lender?
- *Secondary Benefits* — Will the investment result in the investor receiving additional deposits, related business, goodwill in the community, or other tangible and intangible benefits?
- *Portfolio Fit and Expertise* — Given the policy of the institution and its existing personnel, does the investment fit within the institution's geographic, financial, and professional area of involvement?

As can be seen, these are an entirely different set of criteria than you used in in defining your financial requirement in Chapter III, and they will generate a very different definition of your financing requirements. The following example of the financing requirements for a hypothetical CDO business venture demonstrates the differences in definitions.

Your CDO wishes to fund a manufacturing venture. In your project plan you have determined that you will require approximately $1,000,000 of financing to be used as follows:

1.	Purchase property		$200,000
2.	Purchase equipment		300,000
3.	Carry receivables & inventory		400,000
4.	Early losses & contingency		100,000
		Total	$1,000,000

This same financing package, however, when viewed by your potential financiers, will look quite different as is shown below:

1.	*Real estate loan* (75% of total) 20-year, minimal risk, low administrative cost, low return, no secondary benefits, good portfolio fit.	$150,000
2.	*Secured equipment loan* (50% of total), 5 years, fair risk, fair yield, low administrative cost, will receive depository business, fair portfolio fit.	100,000
3.	*Accounts receivable factoring*, annual renewal, acceptable risk, high administrative cost, high yield, no other benefits, good portfolio fit.	200,000
4.	Required equity to secure above.	150,000
5.	Additional required equity.	300,000
		$1,000,000

In order to 1) prepare a financially realistic project plan, 2) successfully market your financial requirements, and 3) avoid wasting a tremendous amount of time and goodwill in locating the right financial sources, it is essential that you plan your project's financing using the market's criteria. Using the above criteria, Section D of this chapter briefly describes the various types of commercial finance available.

C. The Marketing of A Finance Request

The three basic elements in successfully marketing your financial needs are:

1. Insure the request satisfies the primary criteria of your potential lenders or investors.
2. Package the request in an appropriate manner.
3. Approach the right people.

The primary criteria which your project must meet are:

1. The project's financiers have little or no risk of losing their loans or investments.

2. The project's financiers have a good chance of receiving an excellent (by their standards) return on their loans or investments.

3. The project has sound management.

If your project does not meet these three criteria, you will not be able to attract private financing and you must either seek government financing or rework your plans. Do not waste your time trying to sell a package no one will buy.

If your project does meet the above criteria, your next step is to convince potential financiers that this is so. To accomplish this, your most important tool is the project proposal, or project write-up.

There are a number of sources available which discuss the mechanics and formats of writing a proposal. More important than the format, however, is the general approach. Your general approach insures the following two ideas:

1. The write-up is professionally written and packaged. A poorly written package reflects poorly upon your management.

2. The write-up is conservatively presented. As noted, you are dealing with conservative institutions that have processed a multitude of financing requests.

Do not "sell" your project through promotion language, but present the facts in such a way that the reader can easily see that the project meets all of his criteria.

In seeking loan financing, the problem is not in selecting the type of institution you need (which is dictated by your financial requirements), but whom to approach within that institution and how to do it.

You should present your loan request to the presidents of various institutions, or, to an individual who has the personal authority to grant a loan of your request amount. You should approach this individual with an introduction from (and ideally in the presence of) the most politically powerful individual you can recruit.

D. Private Capital Institutions and Types of Financing

1. INSTITUTIONS

The following outline briefly describes the entities within the three categories and explains their relationship to each other according to their supply of funds. Later in the chapter these same sources will be categorized according to the type of financing they provide:

• Suppliers

a. Private individuals

Private individuals provide loan and investment funds directly to users via stock offerings and individual investment in limited and general partnerships. In terms of actual dollars invested, the amount of money which individuals place directly to users through stock purchases or private investment is relatively small when compared to the total funds provided through the market.

b. Trade credit

The most common type of commercial funding is trade credit, or accounts payable financing. Companies are able to provide trade credit financing to their customers to the extent they are able to receive similar terms from other companies, or are able to finance their account receivables through institutional sources. Thus trade credit, the largest form of commercial credit in the United States, filters from the retail level through the manufacturer and eventually the supplier. Terms are relatively short (30 — 90 day) and will usually reflect the supplier's cost of funds and the use of trade credit in the competition for customers.

• Primary Intermediaries

(1) Banks

Commercial banks are the primary collector and primary distributor of funds in the United States. Bank funds originate from savings and checking deposits. These sources of money are relatively inexpensive and highly liquid. Thus, bank financing is usually the least expensive financing available and is provided on a relatively short term basis.

(2) Savings & Loan Associations

Savings and loan association's source of deposits are legally equity investments, and the interest paid is legally equity investment, and the interest paid is legally dividends. This structure provides savings and loans a relatively long term and inexpensive form of money. As a result, Savings and Loans invest predominantly in real estate mortgages which are long term, relatively low rate, and extremely secure.

(3) Insurance Companies

Insurance companies receive a continuing, non-withdrawable stream of deposits in the form of insurance premiums. These deposits are relatively cheap, very large and, via government regulation, can only be invested in low risk areas. Thus, insurance companies specialize in secure, large, long term investments, such as bonds, real estage mortgages, and fully secure long term loans.

As such they, along with commercial banks, are the primary sources for secondary intermediaries.

(4) Cooperatives

Cooperatives receive funds from members in the form of stock purchases. The funds are relatively cheap and thus cooperatives represent an inexpensive source of financing on a short term basis. They represent a relatively small part of the capital market.

- Secondary Intermediaries

(1) Commercial Credit Companies and Factors

Commercial credit companies and factors finance working capital needs which most banks are unwilling to do because of the nature of the security and/or problems in administrating the loan. Such companies receive their funds through bank lines of credit, usually at a prime plus rate. This combined with their high administrative costs results in high cost, short term credit.

(2) Sales Finance Companies

Sales finance companies are another form of commercial credit company financed through bank lines of credit. Instead of financing receivables, these companies purchase consumer installment sales contracts on individual or package arrangement.

(3) Leasing Companies

Leasing companies are financed by banks and insurance companies through secured loans on equipment purchases. The leasing companies in turn lease out the equipment. This is a more expensive form of financing.

(4) Mortgage Loan Companies

Mortgage loan companies deal in real estate and construction related financing which banks and savings and loans compaies finance both by bank credit and through selling their loan portfolio insurance companies.

(5) The Farm Credit System

The farm production credit associations are cooperatives wholly owned by their members. The farm cooperatives are financed through the district Federal Intermediate Credit Bank

2. LOAN TYPES

In this subsection some of the various types of loans and investment are briefly described. The types of funding are separated into the general categories of working capital financing, term financing, and venture capital financing.

- Working Capital Financing — The primary characteristics of working capital loans are:

a. Purpose — Financing accounts receivables and/or inventory.

b. Term — Short term, less than one year;

c. Primary Source of Repayment — Collection of accounts receivable and/or sale of inventory.

d. Secondary Sources of Repayment — Operating profits and liquidation of other assets.

e. Types of Loans Available

(1) *Lines of credit* — A line of credit is a commitment by an institution which allows the user's needs. The traditional purpose for "line credit" is to finance seasonal build-up of inventory or receivables (such as Christmas inventory). The short term borrowing is repaid as the receivables are reduced. Lines of credit are often extended to provide working capital financing when season is not a factor. However, lines are usually extended for one year on a renewable basis. The line commitment may have a fixed ceiling such as $500,000 or be tied to a working capital formula such as 70% of receivables and/or 50% of inventory. Lines of credit may be unsecured or secured by inventory, receivables and other collateral such as equipment. This type of financing is usually extended only to financially sound companies as judged by historic performance and current financial condition.

(2) *Accounts Receivable Financing* — Accounts receivable financing is similar in purpose to a line of credit. It is used in place of a line of credit when the borrower is not sufficiently credit worthy to justify a line of credit, and credit extension must be tied to the amount and quality of specific accounts receivable. Money is lent upon, and secured by, specific accounts receivable. When these receivables are collected, the money is used to repay the loan. In practice, the accounts receivable continually turn over and remain near a certain level, as does the accounts receivable financing. Money lent will usually vary between 50% and 90% of the receivables and the borrowers performance. A receivable financing commitment may be granted upon an annual renewal basis or be contingent upon day to day acceptance of the specific accounts receivable.

(3) *Accounts Receivable Factoring* — In accounts receivable factoring, the accounts receivable are sold to a purchasing institution at a discount. The seller is usually contingently liable for the collection of the account receivable sold and a reserve fund against uncollectable receivables may be required. Factoring is the most expensive form of

receivable financing. It usually reflects a low credit rating of the borrower and funds are extended solely upon the strength of the accounts receivable.

(4) *Inventory Liens* — Inventory lien loans are similar to accounts receivable, lending, except that they are used to finance specific pieces of inventory and are repaid when that inventory is sold. The method is used when there are few inventory items of rather large value, such as mobile homes, large equipment, etc. The loans are secured by liens on specific items. The inventory is often policied by the borrower to insure that financed inventory has not been sold. Lending commitments are usually provided on an annual basis.

(5) *Warehouse Receipt Loans* — Warehouse receipt lending is an alternative form of inventory financing used when the inventory is disbursed in warehouse situations located throughout a geographic region and therefore difficult to administer. To protect its security, a lender will assign a third party, or warehouse agent, to control the financed inventory in a warehouse or segregated part of a warehouse. Based upon weekly agent reports, the lender will advance money on the inventory levels as stated. Warehouse lending is usually committed on an annual renewable basis.

(6) *Bridge Loans* — The term Bridge loan as used here covers various types of short term financing which have one element in common — the loan will be repaid by financing on a term basis. Types of loans classified in this category include:

a. Construction Loans, which are repaid or "taken out" by trust deed mortgage loans upon completion of the project.

b. Organizational Loans which are to be repaid from the sale of stock.

(7) *Other Short Term Loans* — The above loans are specific of accounts receivable and inventory, and are repaid by their liquidation. Both the loan ceiling, collateral and repayment are usually tied to these items. Working capital loans of these type represent the vast majority of term financing provided to businesses. However, when such occasions arise, other purpose short term loans may be made and secured however possible.

- Long Term Financing — The primary characteristics of term financing are:

  a. Purpose — financing the acquisition of long term assets or continuing building of long term assets or continuing building up of working capital requirements.

  b. Term — 2 to 30 years.

c. Primary Source of repayment — collateralized assets, liquidation of other assets.

d. Types of Loans Available

(1) *Chattel Mortgage and Equipment Loans* —Chattel Mortgage and equipment loans are used to finance equipment purchases, plant expansion and long term working capital requirements. Terms are usually for two to seven years, based upon projected cash flow and the expected life of the machinery financed. The loan amount may be based upon a percentage of purchase price, appraised auction value, or insured value. Payment is usually made on a quarterly or monthly installment basis.

(2) *Lease and Lease Purchase contract* — Lease and lease purchase contracts are usually sought when a company cannot obtain a Chattel Mortgage Loan. In a straight lease package, the lender maintains ownership of the equipment and is paid only for its use. In a lease-purchase contract, the user may purchase the equipment for a small percentage of its original value at the end of the lease contract. The primary difference between Chattel Mortgage Lending and leasing are 1) the lender maintains title to the property throughout the term, 2) the effective interest rate (barring unusual tax considerations) is usually higher in leasing, 3) the lender may be responsible for insurance, maintenance and taxes.

(3) *Collateral Loans* — Collateral loans are secured term loans for which the security is not directly tied to the use of the funds. Collateral loans are usually secured by stock, bonds, certificates of deposit, etc. The percentage of collateral loaned and the interest rate will depend upon the quality of the security and the ease with which it can be liquidated.

(4) *Real Estate Mortgages* — Real estate mortgages are used to finance the acquisition of real estate, and the construction of facilities. The loans are secured by the real property and are usually made for 50 to 80% of the property's appraised value. Terms vary between 10 and 30 years and are usually repaid on an installment basis. Real estate loans, as opposed to equipment loans, are based solely upon the appraised value of the property.

Venture Capital Financing — The primary characteristics of venture capital are:

a. Purpose — provide equity base financing when other forms of financing are not obtainable.

b. Term — Variable

c. Primary Source of Repayment —
Relinquish a portion of ownership and potential profits.

d. Secondary Source of Repayment — Bankruptcy and liquidation of assets.

e. Types of Loans Available

(1) *General Partnerships and Joint Ventures* — General partnerships and joint ventures are a simple form by which several individuals or organizations can join together to finance and operate a business. The disadvantage of general partnerships and joint ventures is the full liability exposure of each partner. The major advantage of partnerships are their easy formation and, in some cases, tax advantages to one or more of the partners.

(2) *Limited Partnerships* — Limited partnerships are a form of partnership in which most of the participants have limited liability. Limited partnerships usually have the same tax advantages of partnership and are used for projects of limited duration such as land development.

(3) *Private Stock Placement* — A private placement is exempt from the the regulations of the Securities Act of 1933 and can usually be accomplished cheaper, faster, and with less effort than a public offering. To qualify as a private placement you must meet the following conditions:

- There must be no more than 35 purchasers of stock.
- The purchasers must be in a position to have experience and knowledge in evaluating the risk of the investment.
- Each stock purchaser must have access to the same kind of information that a registration statement would provide.
- There can be no general advertising by letter, radio, notices and magazines of the offering.
- The securities must be offered and sold only in negotiated transactions between the stock issuer and the purchaser.

(4) *Intra-state Registration* — An intra-state offering may also be exempt from registration with the SEC. To qualify for an intrastate offering the following conditions must be met:

- All of the offerees must be residents of one state in which the insuring company is incorporated.
- Eighty percent of the offeree's proceeds must be used in the state in which the offering takes place.
- Eighty percent of the company's revenues must be derived from activities in the state where the offering takes place.

Figure VIII.5

	TRADE CREDIT	Commerical Banks	Saving and Loan	Commercial Credit Co's	Factoring Co's	Leasing Co's	Production Credit Assoc.	Federal Land Bank Assoc.	Banks for Cooperatives	LIFE INSURANCE COMPANIES	Partnerships	Stock Offering
GENERAL BUSINESS												
Line of Credit	x	x		x	x							
Accounts Receivable Financing		x		x	x							
Inventory Lien	x	x		x	x							
Warehouse Receipt Loans		x		x	x							
Secured Short Term Loans		x		x	x							
Chattel Mortgages and Equipment Loans		x		x	x							
Collateral Loans		x		x	x							
Equipment Lease Financing	x	x		x		x						
Real Estate Mortgages		x	x									
Common Stock										x	x	x
Subordinated Debt										x	x	x
AGRICULTURAL												
Line of Credit	x	x					x		x			
Commodity Loans		x					x		x			
Crop Liens		x					x		x			
Secured Working-Capital Loans							x		x			
Chattel Mortgages		x					x	x	x			
Farm Improvement Loans								x	x			
Farm Real Estate Mortgages			x	x				x	x	x		
Conditional Sales Contracts	x	x		x			x		x			

(5) *Regulation A Offerings* — Regulation "A" is a public offering of stock that is exempted from a full scale SEC registration providing certain conditions are met. The conditions are somewhat complex and are defined in regulation "A" of the Securities Act. Under regulation "A", up to $500,000 of stock may be sold in one year. As a result of simplified disclosure and processing procedures of a regulation "A" offering, underwriters may be unwilling to handle the offering and you will be in a position of selling the stock directly.

(6) *Full Stock Registraton* — Any offer to sell more than $500,000 of securities requires a full registration with the SCC. Full federal S-1 registrations are expensive and time consuming. They can take as long as six months and cost as much as $100,000 to fully register and prepare the offering. Such an offering should not be undertaken unless a minimum of a million dollars of financing is required.

VIII.3 FINANCING COMMUNITY ECONOMIC DEVELOPMENT THROUGH GRANT FUNDS

This section provides general information about sources which can be approached for Community Economic Development grant monies. It explains the role that foundations, community trusts, corporations and local, state and county governments can play. It will help guide the reader's search for finances. This section on non-capital market sources of finance is designed to supplement Section III.2 on the Proposal Process.

A. The "Other Money Market"

Where besides conventional financial institutions can a CDO seeking capital for Community Economic Development go for funds? There is another money market with which most CDOs are at least slightly familiar. It includes independent foundations, community trusts and corporations on the private side, and federal, state and local government agencies on the public side.

Why are there non-capital market funding sources? Independent foundations have been created by well-meaning individuals who have been financially successful and seek to help others. Their reward is both good feeling and a tax write-off. Community trusts are public charities that are usually created by bank trust departments when many wealthy donors want to contribute to the overall enrichment of a particular community. Corporate giving is a result of company goodwill, public and government pressure for corporate social responsibility, and tax write-offs.

Public agency grant programs started in the early 1900s and exist because government at all levels saw needs for human services and economic development which were not being met by the capital market system.

While most CDOs have had at least some experience with local, state or federal grants, contracts and loans, few have successfully tapped the resources of private investor/donors to undertake community economic development. This section offers an overview of existing funding sources, discusses various types

of grants and lists further sources of information about grants.

To provide some insight for the task before you, included is a brief description of the successful experiences of two CDOs with the "other money market".

1. ADOPT-A-BUILDING

Adopt-a-building, Inc., is a CDO specializing in housing rehabilitation in a deteriorated area of New York's lower east side. It has greatly expanded in size and impact since 1970 when it began by helping tenants get basic services restored in their apartments. The only resources that Adopt-a-Building had have been housing and people. In their first four years their approach was single-minded; get the heat, lights and water turned back on and then, if tenants want to make more improvements, assist them in setting up a self-help operation. The following budget figures illustrate their successful efforts to diversify support and leverage capital from several sources:

	1970	1971	1972	1973
Anonymous donor		20,000		
Astor Foundation		10,000	40,000	40,000
Chase Manhattan Bank				35,000
Other Banks		10,000	15,000	20,000
Churches	3,000	3,000	5,000	3,000
Other Foundations	2,500	10,000	10,000	15,000
Small private contributions	300	500	500	750
TOTAL	\$5,800	\$53,500	\$70,500	\$113,750

SOURCE: Adopt-A-Building

Although the impact area of this CDO remains very small (43 square blocks) and its main focus is still upgrading buildings, Adopt-a-Building's program and budget have expanded a great deal since 1973. Their support now includes HUD, CSA, CETA and other federal money and funds from New York City, banks and private foundations. They are also undertaking profit making ventures to render parts of their operations financially self-sufficient.

2. TELACU

TELACU (The East Los Angeles Community Union) has grown from a small CDO to an over \$10 million per year operation since 1968. Developing an industrial park in the community has been a priority project for several years. Now, a 47-acre industrial park is under construction, using a combination of funds from EDA, CSA, several local banks and the Ford Foundation.

For TELACU (and most other CDOs) insufficient or incomplete information about the community made it difficult to determine priorities and to plan effectively. Therefore in 1975 TELACU applied for and received \$260,000 in

revenue sharing funds through Los Angeles County to do an area economic and social assessment, which has proved a valuable planning resource. CETA funds are being used in a number of successful training programs. HEW is financing a Health Needs Assessment, while the county helps support the local Dial-a-Ride Project. TELACU also has several for-profit subsidiaries that help support some of their social service projects.

One thing that both Adopt-a-Building and TELACU did was to start small and establish a record of successes. A good track record is important no matter what financing sources you approach. Another common feature of the two CDOs is their ability to *leverage* funds. That is, to use a grant or loan from one source as a basis to convince other sources that the CDO project is worthy of additional funds. This creative accumulation of financial resources to undertake a large project has long been a technique used in the capital market. Those CDOs working in community economic development are finding that the abilities needed to leverage or otherwise obtain funds from the capital and non-capital markets and to successfully handle a profit-making venture are quite different from those needed to run a mental health or other social service program.

B. A Discussion of Private Philanthropic Entities - Independent Foundations, Community Foundations and Corporations

1. INDEPENDENT FOUNDATIONS

Foundations are a mysterious group of philanthropic entities that few people seem to understand. One reason for this is that foundations vary so greatly from one to another; some have staff (15 — 20%) , most have none; some have millions of dollars, others have only a few thousand; some give only within their communities, others give worldwide; some give out complete information, others give out absolutely no information; some correspond with the Foundation Center (your main source of data about foundations), and many do not; some will fund a variety of projects, and others will only fund a specific type of endeavor.

The lack of information about foundations is being gradually redressed by the efforts of organizations like the Foundation Center, the Grantsmanship Center and others which are trying to gather and centralize information for grant seekers. There are approximately 30,000 independent foundations which range in size from the very large (e.g. Ford, Rockefeller, Carnegie, Kellogg, Sloan, Robert Wood Johnson, etc.) to the very small (those named after a single donor which have assets of only a few thousand dollars). The larger foundations have professional staffs while many of the smaller ones are not even set up to answer a letter. Some foundations have a wide variety of interests, but many foundation boards of trustees have decided on a specific activity or issue which is the sole focus of all grant monies.

Since researching foundations takes a considerable amount of time and effort, many CDOs do not feel they have the resources to expend on what

seems a "shot in the dark". But, much of the guess work has been removed by the Foundation Center which publishes both the *Foundation Directory* (Edition 6, 1977) and the *Foundation Grants Index*. Using these volumes, a grant seeker can determine which foundations might give in his geographic area to his type of project or organization, how much money they have to give, who they have funded in the past, and who is on their Board of Directors. It has taken the Foundation Center a decade to develop comprehensive information about some foundations and many foundations still refuse to answer the center's queries for data.

Besides the directory and the Grants Index, which come out bi-monthly and list the foundation grants, the main source of data about foundation's are 990-AR forms. These government forms describe the foundation's financial situation and list grants made in a year-long period. This information is most readily available from the Foundation Center's national libraries in Washington, D.C., and New York City, and from the regional collections being established at libraries nationwide. For further information contact the Foundation Center, 888 Seventh Ave., New York., N.Y. 10019, or obtain the articles on researching foundations from the Grantsmanship Center, 1015 West Olympic Blvd., Los Angeles, Ca. 90015.

The following are specific questions that you need to ask when researching independent foundations:

- Are you located within the geographic area Foundation X supports?
- Does your program fit securely within their priorities and interests?
- Is yours the right type of organization?
- Is the population you propose to serve with your program a population they care about (i.e., youth, low-income, or native American?)

2. COMMUNITY FOUNDATIONS OR TRUSTS

Community foundations are easier to understand and work with than the typical independent foundation because community foundations have staffs and defined areas of interest. The number of these "charitable organizations" 501(C)3 has grown from 102 in 1960 ($125 million in assets) to approximately 280 ($1.5 billion in assets) in 1975. However, most community trusts only support projects within their community boundaries. The funds are donated by many different community residents (in wills, trusts, etc.) and are often handled by a single or multiple-bank trust. The board, which handles the distribution of these monies, must be representative of the community. So, unlike independent foundations which often have very specific project interests, the community trust can support a wide variety of local undertakings. The Grantsmanship article on community trusts provides further guidance on this subject.

3. CORPORATION OR COMPANY FOUNDATIONS AND CORPORATE GIVING

Along with independent and community foundations there is a third type, the company foundation. Company foundations are organized as a means to give out money for good causes (usually local ones like Community Chest, United Way, or employee family benefits). Some companies have specific staff responsible for company or corporate giving programs. Many companies, however, do not choose to establish separate foundations, so their corporate giving program is handled from within the regular corporation management structure. Because of unfavorable tax laws there has been a decrease in the number of company foundations in the last years, but an increase in the dollar amounts of corporate gifts (to approximately $1.1 billion in 1975). This discussion does not differentiate between company foundation grants and corporate giving. For the CDO trying to get a project financed with corporation dollars, the main problem (just as with the foundations) is to find out who to approach and how. Some foundations and corporations seem to share the fear that if they let money seekers know they exist, they will be deluged with requests for funds. The experience of several corporations shows, however, that if they give out guidelines about the types of projects they want to finance, grantseekers will respond by making appropriate requests. But, because the "art" of corporate philanthropy is still new there is almost no consistency among and little consolidated information about corporate giving programs.

This background is not meant to deter or frustrate you in your efforts, but to offer some perspective on asking for dollars from corporations or company foundations. Corporations are an under utilized economic development resource. Besides giving away grant monies, a corporation may release staff to help a CDO with a project, give it materials from inventory, let it use meeting rooms, or help it with printing.

a. Program-Related Investments

There is a slowly growing movement among foundations and corporations toward a new way of supporting CDO projects. The Program Related Investments (PRI) contains features of the capital market and the "other money market." A PRI is a loan or purchase that might be financially high risk, but which conforms to the philanthropic priorities of the corporation or foundation. In the case of a CDO, if the loan is paid back on time and the project successful, then the sponsor has made an investment. If the CDO project fails, the money is considered a grant. The PRI is new enough that you may have to explain the idea to your potential sponsors. The Ford Foundation, the Equitable Life Insurance Society in New York and a small group of other corporations and insurance companies are on the forefront of this movement.

b. An Illustrative Listing of Other Possible sources of funds.

- Opportunity Funding Corporation

- Cooperative Assistance Fund
- Rural Advancement Fund for the National Sharecroppers Fund, Inc.
- Southern Cooperative Development Fund
- Ghetto Loan and Investment Committee of Episcopal Church
- Campaign for Human Development
- Community Development Foundation
- MESBICs, LDCs, LEDCs, etc. (Appendix B)

C. A Discussion of Public Programs—Federal, State and Local—which support Community Economic Development

In the past decade there has been a shift among government agencies from the provision of *grant* monies to the development of *contracts* under which the contractee agrees to provide certain services. The shift follows the need for accountability at all levels. No longer is the system as loose as it was under the Great Society programs of the 1960's when grants flowed freely for general support of organizations. Now contracts are written to specify exactly what is expected and what must be accomplished by a CDO in a given time period. This makes the need for planning and for careful program development very strong. The CDO's reputation and future financing are always on the line.

1. FEDERAL PROGRAMS

As any CDO comes to realize very early, understanding the internal organization of federal agencies concerned with community economic development is very important, yet extremely difficult. Frequently, the people you learn to count on for information are either promoted or shifted to a different department, and you are left trying to deal with a new bureaucracy. In this section there is no attempt to list programs, funding levels and staff names because these things change so quickly. Rather, discussion focuses on the types of community economic development projects a CDO might want to undertake, and mentions those federal departments that might be helpful. Appendix B lists federal programs that can be utilized for community economic development.

a. Loans for Business Development, Housing Rehabilitation, and Industrial Development

Because of the high interest and low risk requirements for loans from the capital market, the federal government has established several low interest, high risk loan programs for small businesses. The small business administration (SBA) is the main source of these loans though other federal agencies such as the Economic Development Administration provide loans, or loan guarantees, both for established and new businesses. There is a broad range of

loan types (e.g. Economic Opportunity Loans, Physical Disaster Loans, and Displaced Business Loans) which are explained well in the book, *Sources of Capital for Community Development.*

A CDO might also seek financing from an SBA-licensed organization, a Small Business Investment Company (SBIC), a Minority Enterprise Small Business Investment Company (MESBIC), or a Local Development Company (LDC). In certain situations, the CDO might be eligible to become one of these three types of financing organizations and could then further encourage economic development within the community. The Department of Housing and Urban Development (HUD), the Economic Development Administration (EDA), the Bureau of Indian Affairs, the Farmers Home Administration (FMHA) and others also have loan programs that an eligible urban or rural CDO might be able to utilize.

b. Funds for Planning

Planning is an extremely important, but often neglected, element of the work of a CDO. A good plan is the organizing force behind all CDO activities within a community.

This entire Handbook is designed to help a CDO plan for community economic development. However, obtaining planning money from the federal government is not an easy task. Even though an Overall Economic Development Program (OEDP) is usually required before obtaining project implementation funds, there is often little or no federal money available for planning. Still, the private sources previously discussed, as well as public state and local agencies, may well be the best sources of planning monies. The following federal agencies have allocated *some* funds that can be granted directly to CDOs for planning activities, technical assistance, or administration: EDA, OMBE, HEW, DOL (through CETA), VSTS, and the Department of Agriculture/(DOA). A CDO might be able to obtain these funds indirectly through CAP agencies, a CDC (both funded by CSA), or from HUD via the UDAG program. These services are discussed further in the local government section.

c. Funds for Project Implementation and a Description of the Catalog of Federal Domestic Assistance

In addition to the sources of loans, and foundation grants for project implementation already discussed, the CDO has a wide variety of federal agencies it can approach for project support. For those projects that relate to economic development *per se* (housing, industrial development, business and commercial development, manpower training, etc.) EDA, CSA, HUD, OMBE, VSTS, and DOL (CETA) are the main funding sources. However, since community development covers an extremely broad range of possible projects (health, daycare, mental health, crime prevention, tourism, etc.) it is worth discussing the main source of information about all federal monies—*The Catalog of Federal Domestic Assistance.*

The Catalog of Federal Domestic Assistance is an imposing volume prepared yearly by OMB (the Office of Management and Budget) and available from the Government Printing Office in Washington for about $20.00. It is advisable for a member of the CDO staff to buy the catalog and study it (sleep with it and eat with it!) *The Catalog* brims with possibilities and can be the best friend a CDO ever had. While the newer editions provide a good description of *How to Use the Catalog*, a short course is provided here so you can begin to consider its many facets.

First, *The Catalog* has eight indices to help you determine which agencies and which programs might best fit your needs.

- The Agency Program Index classifies programs by administering agency and gives the program number.
- The Functional Index divides programs into categories like—Community Development, and Housing, etc., and then subdivides these into sub-categories.
- The four applicant eligibility indices discuss those federal programs from which state government, local governments, individual and non-profit organizations can receive direct assistance. The last index is probably the most interesting for a CDO, but bear in mind that you may be able to get funds chanelled through other government agencies.
- The Subject Index provides a detailed listing of specific types of assistance by topics, services, beneficiaries, etc. This index can be a great source of information.
- The Popular Name Index lists programs by the name most often used in reference to the programs.

It is best to use several indices and to become very familiar with the *Catalog* and the programs most relevant to your CDO's activities. You might put together a mini-catalog that describes only those programs the CDO might decide to pursue. This makes future catalog reading a less formidable task. Further, seeking support for a specific project, you can use your preapplication write-up (Chapter III) to help determing the most appropriate sources. While Appendix B will help you begin, explore other possibilities through the *catalog* as well.

The Program Descriptions provide a great deal of detailed information, including:

- The authorization for the program (legislative basis)
- The objectives
- Types of assistance

- Applicant eligibility requirements
- The application and award process (deadlines, etc.)
- Assistance considerations (matching requirements, i.e. 90% Federal, 10% CDO)
- Financial information about the agency
- Program accomplishments
- Regulations and guidelines (the federal register number)
- Information contacts
- Related programs

The CDO that comes to know and understand the *Catalog* will find it an invaluable tool for seeking out funds for almost any undertaking. However, you should always check with the appropriate agency to make sure that the information is up to date and accurate. It is also essential that you be aware of most current data about each program. Such data can be found in the Federal Register or *Code of Federal Regulations*, available from the Superintendent of Documents.

A majority of federal money is distributed to units of government according to formulas. Only a small portion goes to finance projects *per se*. A CDO needs to be aware of the formula money-flow in order to determine which programs are funded this way and how many dollars will be coming to its region and state or local government offices. The CDO may well be eligible to undertake projects financed by these formula grants.

One final point about getting money from federal agencies is the distinction between grants and contracts. A grant is assistance given to accomplish a purpose for the public good, while a contract is let to purchase services which benefit the government. Grants do not always have well-defined goals and objectives, while a contract requires a apecific product. The work timetable under a contract is more rigorous and complete than under a grant, and a grant is generally monitored less than a contract. Finally, the selection of grantees and contractors may differ. Grants may be given according to an agency's discretion or a formula funding allocation. Contracts, however, are released only after a detailed award process is completed wherein the government selects the contractor who provides the most advantageous price and product.

2. STATE PROGRAMS

Because there is such variety among programs from state to state, it is not possible to be specific here. This section mentions general possible sources.

a. Loans

To support business and industrial development, most states have a State Development Company or a State Industrial Development Authority. These usually provide a more favorable interest rate than conventional lending institutions, and may be supported by a variety of tax incentives from state government.

Some states also have Housing Authorities that provide long term, low-interest loans for housing purchase and rehabilitation in "high-risk" neighborhoods.

b. Funds for Planning

A CDO may find itself eligible for planning monies which come through state government via formula grants from the federal level. Technical assistance on certain projects may also be available from state economic development offices.

c. Funds for Project Implementation

Here again, the CDO should become aware of project money the state may have available either from federal formula grants or from the state budget. Often such funds can only be obtained by the CDO after the funds have been allocated to the local level.

d. Local Programs (city, county, township, etc.)

There has been a shift from the 1960s when a CDO obtained primary funding directly from a federal agency. In the 1970s, most money filters from the federal to the local level based on legislated formulas as in revenue sharing, CETA, Urban Development Action Grants (UDAG) and community block grants. These sources, in addition to other locally collected and distributed funds, can be extremely important for a CDO's operation.

1) Loans

Local Development Corporations, Community Development Corporations, SBICs, MESBICs, Business Development Organizations, SBA offices and probably others exist in many communities for the purpose of loaning money and affecting community economic development.

2) Funds for Planning

One of the first steps in CDO planning is to determine what information has already been collected about the community, and to study current planning documents. To do this, the CDO must establish a relationship with the local planning agency. This promotes the exchange of ideas and information and sometimes results in the provision of technical assistance or planning funds to the CDO. Actual plan-

ning money may also be available through the previously mentioned formula grants. For instance, revenue sharing has allowed many communities to undertake the development of detailed plans for the first time. The CDO needs to determine what public and private sources within their community might be willing to support planning activities. Then the CDO must write the appropriate proposals.

3) Funds for Project Implementation

Like funds for planning, implementation monies can be obtained by applying to local government for a share of formula grant funds. UDAG (Urban Development Action Grants-HUD), Community Planning and Development funds (HUD), CETA dollars on employees (DOL), CAP or CDC dollars (CSA), and general revenue sharing monies for other types of projects, can all be obtained by the CDO that has a plan and is constantly updating its information about available financing. Local governments (county, township, city) may also have program money for which a CDO is eligible.

D. Sources of Further Information

The material here provides only a fraction of the information you need to begin the expansion and diversification of your CDO financing base. Several publications, seminars, and organizations have been mentioned here and in Section II.2 to help you lay out the specific path you want to follow.

1. LIBRARIES

Libraries are great resources for reference volumes and periodicals. The Foundation Center is establishing collections that are specifically grant-related in libraries all over the country. Things to look for in these and other libraries are: *The Catalog of Federal Domestic Assistance*, *The Foundation Directory*, *The Annual Register of Grant Support*, *How to Get Money for: Conservation and Community Development* (Human Resources Network), *Sources of Capital for Economic Development*, individual directories to state foundations, *The Foundation Grants Index*, Foundation Annual Reports on microfilm, *Source Book Profiles*, *The Foundation Center National Data Book*, and *The Congressional Directory*.

There are numerous helpful periodicals: The Grantsmanship Center *NEWS* (a bi-monthly publication available on a subscription basis), The *Foundation News*, the *Economic Opportunity Report*, the *Federal Programs Monitor*, *Newsbriefs*, the *Commerce Business Daily*, the *Foundation Center Information Quarterly*, and others which provide up to date information and can be very useful. The *Washington Post* and the *New York Times* keep close tract of congressional and national issues, and have special sections which give information on the current status of bills in Congress.

There are information services to which you can subscribe, usually for a substantial amount of money. These services attempt to aggregate all the latest funding information for a specific field or topic. Some are better than others,

but it is advisable to either find a library that subscribes to the one you want or read several issues before you subscribe yourself.

2. INSTITUTIONAL GRANTS OFFICES

Most universities and some non-profit organizations have established special offices or small libraries designed to help the grant-seeker. Contact your local college and see if there is anyone there who can help guide your search for finances. This should be one of your first stops, especially if you are affiliated with such an office.

3. WORKSHOPS AND SEMINARS

The Grantsmanship Center Training Program, held in cities throughout the country, can be very useful to the CDO. The intensive, week-long program is concerned with teaching program planning and the translation of plans into proposals for funding; developing an understanding of various systems of federal funding and identifying sources of government support; and providing a similar, systematic approach to obtaining foundation and corporate support. During the week, the staff and other students can help you "polish" a specific proposal to a high shine. Contact:

The Grantsmanship Center
1015 West Olympic Boulevard
Los Angeles, California 90015
(213) 485-9094

The National Graduate University also sponsors seminars in Washington D.C. and several other cities on federal grants and foundation monies. Their program is well-established and some of their seminars are designed for non-profit agencies. Contact:

National Graduate University
3408 Wisconsin Avenue, N.W.
Washington, D.C. 20016
(202) 527-4800

Check your local university for workshops on short courses dealing with aspects of grantmanship and grant-getting. Another type of workshop to look for is one sponsored by the federal or state agency to which you are applying for support. Increasingly, agencies are holding seminars for those applying to them for funds. These agencies find that the more input they give to CDOs working on proposal development, the better the applications and ultimately the projects funded.

4. WORD-OF-MOUTH AND OTHER CDOs

Another CDO or someone working on a similar project can be the best or the worst source of information about community economic development financing. Because of the stiff competition among grant seekers, there is some-

times an unwillingness to share knowledge such as the names of cooperative people in foundations or public agencies, good publications, new information from Washington, etc. However, if you do have a positive relationship with a knowledgeable person or CDO staffer you can get invaluable guidance and detailed counsel.

HUD has developed a new program in the Office on Neighborhoods that is designed to set up helping relationships and information exchanges between "advanced" CDOs and "evolving" CDOs. The Office on Neighborhoods will be making available much useful information as this program gets underway.

IF YOU WANT TO READ MORE . . .

From: The Grantsmanship Center News
1015 West Olympic Boulevard
Los Angeles, CA 90015
(213) 485-9094

Reprints cost between $.95 and $1.25 and are well worth getting.

Program Planning and Proposal Writing
Researching Foundations Part 1
The Big Search - Researching Foundations Part II
Exploring the Elusive World of Corporate Giving
How Foundations Review and Make Proposals
Community Foundations
The Catalog of Federal Domestic Assistance
City Hall; An Important Resource for Your Organization
How to Affect Legislation Before It Affects You
Basic Grantsmanship Library

Sources of Finance for Community Economic Development

Virginia P. White, *Grants: How To Find Out About Them and What to do Next*, Plenum Press, 1975.

The following provides a brief list of references concerning private capital sources in the United States. Probably the best single reference is:

> Center for Community Economic Development, *Sources of Capital for Community Economic Development*, Cambridge, Mass., 1976.

Other references include:

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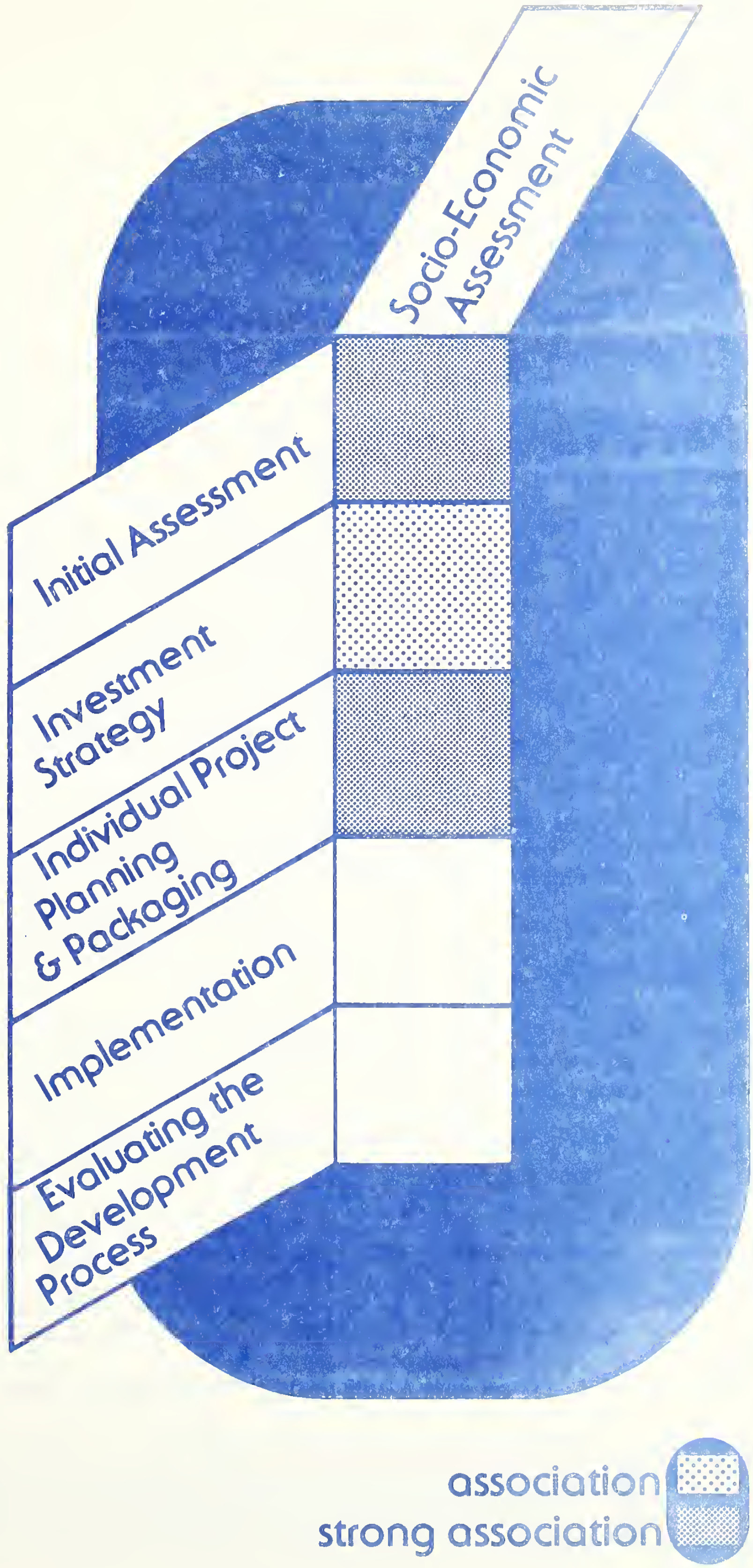

Socio-Economic Assessment
Initial Assessment
Investment Strategy
Individual Project Planning & Packaging
Implementation
Evaluating the Development Process
association
strong association

CHAPTER IX

SOCIO-ECONOMIC ASSESSMENT

CHAPTER SUMMARY

This Chapter will help the CDO to select and use social and economic information most relevant to the activities outlined in the Development Process in Part II. If the CDO's economic development efforts are to respond to the needs of the community and reflect actual social and economic conditions, decisionmaking throughout the Development Process must rely on information in the form of a community socio-economic profile. The community, defined as people in a specified geographic space, is separated into three sectors: household, business, government. The interaction of these sectors (i.e., people and institutions within them) with each other and with the world outside the community, constitutes socio-economic activity. This chapter discusses the relevant data required for each of these sectors, and defines their interactions. As well, various examples are offered on how to utilize the relevant data at different stages in the Development Process.

HOW THE CHAPTER IS USEFUL

This chapter primarily serves as a guideline for preparing a community's socio-economic profile. In this context, it does the following things:

- Suggests a format for organizing and gathering information about your community.
- Helps you clarify your information needs and go after relevant data only.
- Indicates what information is easily available from secondary data sources, and how to use some of these important sources.
- Tells you about what primary data you can gather on your own.

Through this socio-economic profile, the chapter helps you identify and document your community needs and resources, develop an investment strategy, select, plan and package your projects, and finally, implement and evaluate your economic development efforts.

IX.1 THE CDO'S NEED FOR INFORMATION

In Part I, community socio-economic activity was defined as the interaction of three economic sectors: the household sector, the business sector, and the government sector.

The household sector is made up of all the people *residing within the established geographical limits of the community.* Some of them work and earn income part of which is saved and the rest consumed in the form of goods and services. The business sector is made up of all the commercial, industrial and service outlets *located within the community.* These outlets employ people and capital, consume certain goods and services from other businesses, and in turn provide certain other goods and services. The government sector comprises activities at all levels of government (federal, state and local) *confined within the community boundaries.* It also employs people and buys goods and services from businesses, collects taxes and in exchange provides certain goods and services for public consumption.

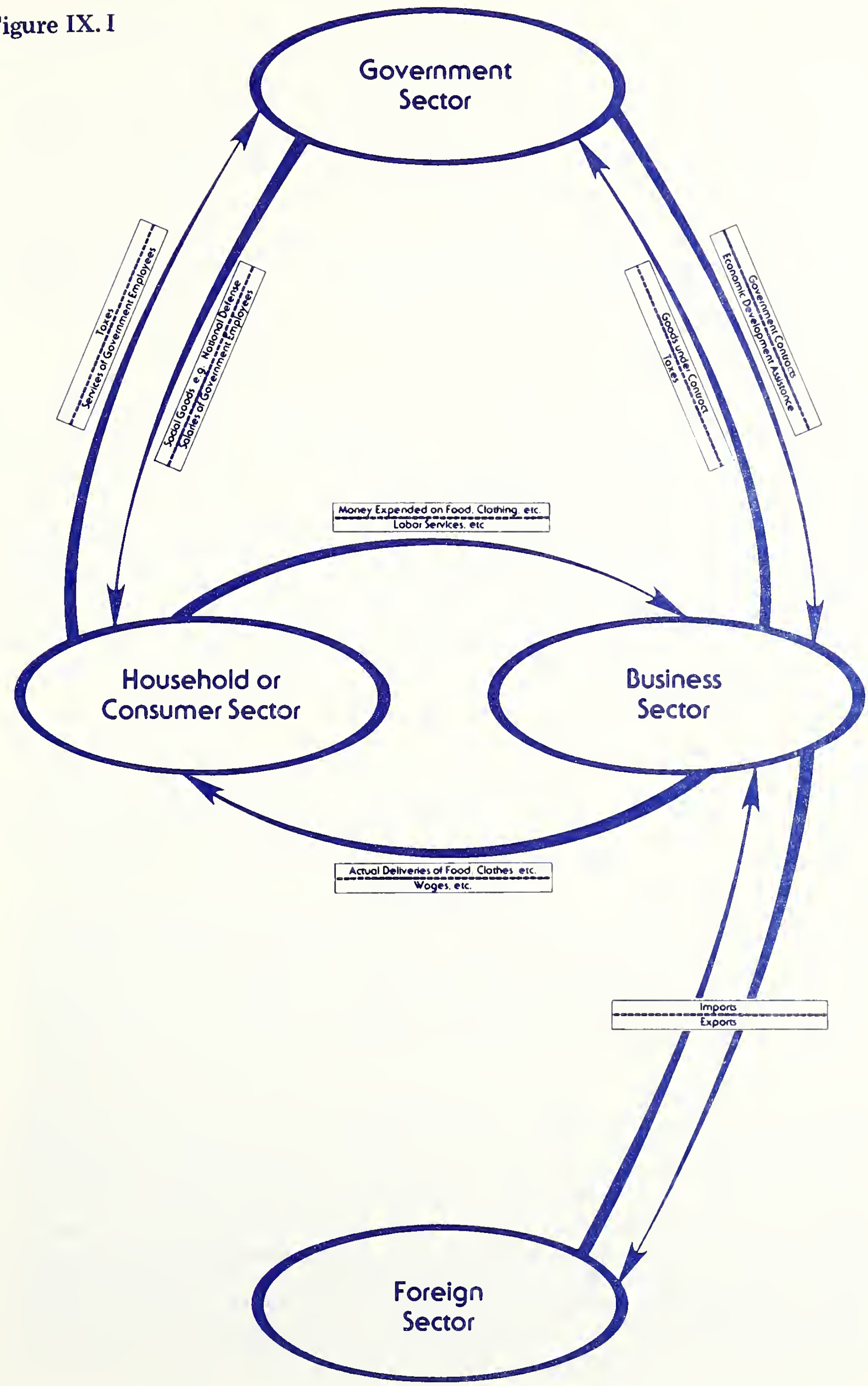
It is easily seen that although the sectors are identified *within the established physical boundaries of the community*, they also have socio-economic relations with the world outside. Thus the household sector has people working outside the community, and buys goods and services from outside, too. The business sector also employs non-community residents, and buys and sells goods and services outside the community. Similarly, the government sector may collect revenues from elsewhere and spend it in the community and vice-versa.

All the above interactions both between each sector and with the world outside constitute community socio-economic activity, and may be represented by means of economic flows (demand and supply, exports and imports) in real terms or money terms (Figure IX.1). The net of all these flows makes up the community economic product.

A CDO's efforts at economic development may be construed as influencing flows and interactions. Thus, when a CDO starts a financial institution in the community it improves the supply of capital available to businesses. If there is a demand for capital in the business sector, new businesses would start and in turn improve the supply of jobs, goods and services for the household sector and for other businesses. Similarly, if a CDO should decide there is a health care need in the community (a demand for health service by the household sector) it enhances the supply of health care through the business sector (private clinics) or the government sector (public health clinics and hospitals).

The purpose of community economic development, as defined in Part I, is to satisfy unmet demands in the community by enhancing appropriate supplies and as a result increasing the community economic product. To accomplish this in a responsive and effective way, a CDO needs information about these various demands and supplies between the sectors and with the outside world. Therein lies the reason for a CDO's need for information about its community's socio-economic activity.

Figure IX. I


Government Sector
Taxes
Services of Government Employees
Social Goods e.g. National Defense
Salaries of Government Employees
Goods under Contract
Taxes
Government Contracts
Economic Development Assistance
Money Expended on Food, Clothing, etc.
Labor Services, etc.
Household or Consumer Sector
Business Sector
Actual Deliveries of Food, Clothes, etc.
Wages, etc.
Imports
Exports
Foreign Sector

Thus, the CDO must understand the characteristics of the physical space defining its community, and setting it apart as an analytical unit distinct from the outside world. Within this physical space, the CDO needs to know the characteristics of the people in the household sector. Then it needs to know about all the different types of businesses that together form the business sector. Finally, it should have knowledge of all the activities at different levels of government that take place within the community's boundaries.

Later, this chapter describes a framework which helps a CDO gather the necessary information and put it together in the form of socio-economic profile. But first a few words on information and data.

A. Data and the Use of Information

The selection of specific, social and economic information necessarily involves two general considerations: 1) the ways in which information may be used, and 2) the kinds of information actually available.

Four common ways of using infomation can be identified here: 1) to describe the state or pattern of events, 2) to probe the relationship of events or their systemic structure, 3) to forecast future changes, and 4) to formulate ways to influence events. Furthermore, a CDO should be able to document economic status in order to convince others and lobby for support.

1. PRIMARY AND SECONDARY DATA

The way in which information needs are initially defined determines much of the work that follows. Also, it largely determines how much in the way of resources is required to do the work. Simultaneously, of course, the availability of resources limits the amount of information that can be gathered. At the outset then you might turn to two kinds of data: primary and secondary.

Primary data are first hand information gathered from original sources, such as interviews, surveys, or directly observing the phenomenon being studied. Secondary data are gathered by someone else and often are all you will need. Thus, data collected by the United States Bureau of the Census, published and stored in the library, become a secondary source for everyone's use. Most of the information needed by CDOs, especially CDOS that are large (rural) and cover county-wide areas, can be obtained from published sources. For smaller CDOs, especially the ones that are portions of a county or city, primary data gathering may sometimes be required. Even then, there are enough available data sources (discussed later in Section IX.3, IX.4, and IX.5) which when used judiciously may satisfy all your information requirements. What should be emphasized is that it is a folly to commit oneself to undertaking survey research and primary data gathering without first determining, in some preliminary fashion, what kind of data gathering and analysis is feasible within the level of resources available, and then deciding whether those results are likely to prove worthwhile.

2. DATA AND BIAS

If there is any single criterion for distinguishing good data from bad data, it is summed up in the word "bias". Bias is what we are always trying to minimize and avoid. Bias means that somehow the data contain a systematic error and thus do not represent what we intended them to represent. Secondary data are often considered more likely to contain certain bias than primary data, causing them at times to be looked upon with suspicion. The data gathered in a first-hand survey are subject to many processes of definition and interpretation that may not fit the requirements of the secondary use. If, however, the secondary user knows the technical procedures used in gathering the data and finds them acceptable to his purposes, then there is no reason to claim bias.

IX.2 DEVELOPING THE SOCIO-ECONOMIC PROFILE

The physical size of the community your CDO serves is a crucial consideration in developing the profile. Since much of the readily available data are on the county level, you are obviously at an advantage if your community is large enough to encompass an entire county or several counties like most rural CDOs do. However, urban CDOs are mostly small in area (sometimes a few blocks) and have to rely on tract data sources. Section IX.3 and IX.4 are thus devoted entirely to small areas. In this section, first a general approach is explained and then the information required to describe the household sector, business sector and government sector, discussed in section IX.1, is described.

A. General Approach

The socio-economic profile of the area should include three types of information:

- brief review of the area's past development and growth, so that its present economic situation and adjustment outlook can be placed in historical perspective.

- assessment of the status of the area at the present time.

- consideration of the area's future potential.

Much information on the area's history and present status can be obtained from published data sources. The selection of the appropriate variables to consider is largely guided by economic theory and findings from past studies.

The variables of greatest use for the area profile are: population, employment by industry, labor force, employment, total unemployment, unemployment rate, median family income, per capita income, retail sales, new capital expenditures, housing prices, level of residential construction as reflected in building permit data, total assessed valuation of real property in the area, local government bond ratings, and local government expenditures by functional category.

The assessment of an area's potential for development should be based both on analysis of published data and on consideration of opinions and impressions obtained through personal knowledge of the community. In addition, insights from any past analyses of the area's economy should be incorporated into the study.

Selected analytic indicators can be used to track the performance of an economy over time. The following indicators are particularly useful in conducting this sort of analysis:

- *Unemployment Trend Index*, defined as the ratio of the unemployment rate in one year to the unemployment rate in the preceding year.

- *Employment Trend Index*, defined as the ratio of the number of persons employed in one year to the number of persons employed in the preceding year.

- *Capital Investment Trend Index*, defined as the ratio of new capital investments in one year to new capital investments in a preceding year.

- *Income Quotient*, defined as the ratio of median family income in the target area to median family income in the state.

- *Debt Interest-Expenditures Ratio*, defined as the ratio of the local government's expenditures on interest on the debt to total general expenditures.

Published data sources should be used to the extent possible to develop an area's economic profile. The use of national data sources insures comparability of information across areas and over time. Useful data are also sometimes published at the state and local level (e.g., employment data available through State Departments of Employment Security). Although these data are not usually comparable across areas, they are likely to be comparable over time for the same area and thus provide good information sources for the longitudinal evaluation studies and planning analyses. A summary of the economic variables of interest and the published sources of these data is shown in Figure IX.2.

It is important to provide documentation on the specific published data sources used. Items to be covered include:

- title of data source

- description of the data, including frequency of reporting and geographic coverage

- time lags in publication of the data

- location of the information
- description of any modification or manipulations of the data reflected in the evaluation study.

In some cases, important published data may be available at the state and local level. Therefore, you should make selected mail/telephone inquiries to try to acquire this information. In particular, data should be solicited this way from State Departments of Employment Security and from annual reports of various local governments located within the target areas selected for study. Local housing price which may be obtained through inquiry to a major local realtor is also a data element which should be included in the area economic profile. This inquiry can best be made by telephone, asking a local realtor to estimate the sales price *now* and *two years ago* of the following housing units: an unfurnished, detached unit in sound condition with a complete bath, a fully-equipped table space kitchen, three bedrooms, living room, separate dining area, hot and cold running water, electricity, central heating, access to schools and grocery stores, play space for children, and location on a one-quarter acre lot in a residential neighborhood free from hazards or nuisances.

B. The Household and Business Sectors

As explained in Section IX.1, the household sector is made up of all residents living within the community. To describe the household sector, information is needed on categories as follows:

- Population
- Education
- Labor Force
- Income and Poverty
- Housing

The business sector, on the other hand, includes all the commercial, industrial and service outlets located within the community. To describe it, information is needed on the following:

- Number of Outlets
- Business Volume or Sales
- Employment
- Trends

1. POPULATION

At all stages of CDO planning and decisionmaking, adequate population information will be a major component in determining the economic impacts. The characteristics of the present and future population in relation to the economic activity of the community determine the needs of virtually everything—housing, stores, jobs, streets, sewers, schools, etc. Every assessment must, therefore, begin with a clear understanding of the community's population—its size, make-up, and growth rate.

Not only must present population characteristics be known, but you must also be able to project future population trends. The breakdown of popula-

tion projections by age, sex and household is particularly critical in planning for many services. For example, planning for elementary and secondary schools depends on the size and age distribution of the school-age population. Similarly, the character of many health care facilities varies according to how many people there are over 65. Also, recreational needs depend on the make-up of the population. In planning for major facilities, such as a health clinic, it is imperative to know the population growth rate in order to have adequate time for planning and constructing a clinic.

While the need for information about population is obvious at planning and policy levels, it may not be so at the project level. Generally, individual projects will not significantly affect the size or composition of a community unless it is a very large project, such as a freeway or a sewage treatment plant.

But over time, a number of similar projects may change the community's character and service needs. For example, several single-family developments may increase the school-age population or the demand for cultural activities, libraries, and recreational facilities.

Population data are prepared by federal, state, regional and local governments. These combined sources provide historical population levels, current estimates, and future projections.

The primary source of historical data is the *Census of Population* conducted by the U.S. Bureau of the Census every ten years. This provides the statistical basis for a series of reports. Updated information will become available more frequently as the result of a bill recently passed in Congress requiring that a mid-decade national census be conducted beginning in 1985 (P.L. 94-521). In the meantime, many local governments have contracted with the Bureau of the Census to conduct a special mid-decade census.

a. Decennial Population Data

The Decennial Census of Population, conducted every ten years in the years ending in 0, provides a vast amount of detailed information. This is especially valuable in showing the characteristics of the population and in analyzing specific subjects such as the education and occupation of the population. For example, statistics from the 1970 census include age, race, sex, marital status, and relationship to head of household, and are published for states, counties, cities, and towns. Printed reports have long been the most common means of releasing decennial census data. These printed reports are probably the most convenient and readily available source of county-level census data. The Census Bureau releases several different series of reports. In most series, there is one report for each state covering counties and other geographic areas.

As an example, Volume I of the population census reports has four series for each state in the United States. It contains much of the county population data needed.

Number of Inhabitants (PC (1)-A)

This series contains the final and official population counts for different areas

in each state. It tells whether people live in urban or rural areas, SMSA's urbanized areas or unincorporated places. For comparison purposes, it shows the counts for both the 1960 and 1970 Censuses and the percentage change. Some special features include maps and charts, land areas in square miles, population density, number of inhabitants of annexed areas, and results of special censuses taken between 1960 and 1970 Censuses and the percentage change. This report series is most useful in determining both population and land area changes during the last decade.

General Population Characteristics (PC(1)-B)

This series contains 100% statistical data items collected for every person. These statistics are included in the other reports also, but not in as great detail as this report. There are also numerous cross-classifications not found elsewhere, as well as some historical data such as changes in state population since 1900. It is the only printed source of characteristics for minor civil divisions or census county divisions (administrative subdivisions of counties). To make the report easier to use, there is a Table Finding Guide in the front. A brief appendix with definitions, geography, and error listings is included.

General Social and Economic Characteristics (PC(1)-C)

Data for areas of 2,500 and more population, and sample statistics for social and economic items are the distinguishing feature of this series. The appendices are extensive, containing definitions and other useful information on census data. The easiest way to find a tabulation in this report is to use the Table Finding Guide in the front of the report.

Detailed Characteristics (PC(1)-D)

Sample statistics for large areas, states, SMSA's and large cities, characterize this report series. Because of the larger areas involved, much more detail is possible in the subject areas than is permitted for the small areas in the PC(1)-PC(1)-C reports. Most of the data are for SMSA's of 250,000 or more population, but there is some information (place of work, means of transportation) for SMSA's of 100,000 or more.

The reports described represent only a small part of the data available from the 1970 Census. These reports do, however, contain a majority of population and labor force data of interest to economic district planners.

As of the date of this publication, planning for the 1980 Census of Population is underway. Subjects now receiving priority consideration for use in the 1980 Census are basically identical or similar to those in the 1970 Census. Additionally, the 1970 Census was similar to the 1960 Census. This is especially true of general population items. Although questionnaire development, sample sizes, and enumeration procedures have changed over the years, the content of the decennial censuses has remained relatively constant. To the general user then, this consistency means an ease of comparability of data collected for the decennial censuses. Keeping in mind the various caveats and limitations

which may apply to certain census data, it is possible to use these data to develop analyses over time of trends and patterns of many characteristics important to planning for economic development.

2. EDUCATION

The level of educational attainment of the population is a significant consideration in economic development. Up to 40% of the average annual growth in income per person employed may be attributed to education. Also, about one-half of the growth in output in the United States in the last 50 years may have resulted from factors other than increases in physical capital and hours worked. Education is one of the "other factors." Even without allowing for the impact of education on technology and innovation, its contribution appears to account for between one-fourth and one-half of the increase in income not accounted for by additional inputs of labor and capital.

Contributions of education to development can also be reflected in technological change and innovation through the application of knowledge to both industrial products and processes. This is reflected in the succession of new techniques and new methods of organization. These advances, made in part through education, can lead to increases in output and income.

Education can also improve the quality of business management which strongly influences development. Decisionmaking must be provided by sophisticated leaders of large and small firms. These well-educated persons increase their contribution to output-per-hour and therefore to economic development.

Like the training of management, the educational attainment of labor is also important to economic development, because it will either fulfill or not fulfill the labor demands of business. Foremen and supervisors, engineers, sales people, teachers, and office workers, to mention only a few occupations, are all required to produce the vast variety of goods and services that make up the total production of an economy.

Education can influence production as shown above and thus contribute to individual income. Therefore, investment in education can accelerate economic development. For example, when farm people take non-farm jobs they often earn less than industrial workers of the same race, age and sex. These differences in earnings can correspond closely to corresponding differentials in education. As a second example, observations show that younger workers often have a competitive advantage over older workers. These younger workers may have on the average twice the education of the older workers. The observed advantage of these younger workers results not from sociological preferences of employees, but to some extent from real differences in productivity, connected with more education.

a. Data from the Census

Data on school enrollment and educational achievement are available at the

county-level from the decennial census reports. 1970 Census county-level data on education appear in Volume 1, Chapter C, Table 120 of the census report. Data are shown on total school enrollment and public school enrollment by age group. Years of school completed, by grade level, are shown for males 20-49 years old, and for females 15-44 years old. Data are shown for these age groups because these are the main ages for marriage, divorce, and childbearing.

3. LABOR FORCE

Perhaps more than any other factor of production, the size and characteristics of the labor force determines the amount of total output possible for an economy to produce. The larger the labor force, the more goods and services it can produce. Increases in the labor force of an area can be an important aspect in planning economic development.

The productivity of the labor force is significantly related to economic development and income. One definition of productivity is the value of goods or services produced on the average by each person in the labor force during each hour worked, using the tools and technology available. Therefore, labor's productivity is a measure of the dollar value of output produced by the average worker in some stated time period. Rising productivity can permit total output and income to grow fast enough to make possible more goods and services for each person, even with a growing population and even when everyone works fewer hours (40 hours per week as compared to 63 in 1880.) Only when there are more goods and services per capita can a higher standard of living be achieved.

As one means to stimulate economic development, planners might encourage a transfer of labor from sectors where productivity is low to where it is high. In general, the movement of labor out of low skill, low wage occupations into jobs of higher productivity can raise the rate of development and income.

For economic development, participation in the labor market is an important economic activity. Unemployment is one of the principal development problems in an area. It appears in two broad forms: 1) deficient demand and 2) structural unemployment. Deficient demand produces unemployment because the economy is growing at a rate insufficient to absorb the growing labor force. Structural employment occurs when workers are displaced by changes in technology or product demand.

Structural unemployment in distressed areas can often be the result of: 1) technological changes and innovation, resulting in the substitution of capital equipment for labor or 2) changing demand patterns for products and resources. Declining economies tend to lose the skilled professional and white-collar components of the labor force. The length of time workers have been unemployed can be important. Often, due to structural unemployment, skill levels of workers are surpassed by increasing industry requirements. Eventually, such persons drop out of the labor force. Consequently, the area develops a class of persons who are experienced, unemployed, and who represent a potentially powerful reservoir of resources for economic development.

The occupational and skills composition of the community are key factors attracting potential industry development and expansion. Analysis of an area's occupational make-up enables a development planner to identify the types of skills available in the district and determine how these labor resources might be used as incentives to attract industry. The Census Bureau publishes several statistical series which characterize the labor force.

a. Definitions

In order to estimate the impact of local decisions on employment and unemployment, the analyst needs data about past employment, as well as a projection of future changes. But first it is important to understand how the federal and state governments define terms for collecting data.

> *Total Labor Force* includes all working-age civilians classified as employed or unemployed, as well as all members of the Armed Forces in the United States and abroad. The labor force participation rate is the percentage of total population, sixteen and over, that is part of the labor force.
>
> *Employed Persons* are all civilians who did any work for pay or profit during the pay period which includes the 12th of the month, were on a payroll but unable to work during the week because of vacation, illness, trade dispute, or time off for personal reasons, or worked 15 hours or more without pay in a family-operated enterprise.
>
> *Unemployed Persons* covers all civilians who were not employed but were available and actively seeking work within the past four weeks, were waiting to be called back to a job from which they had been laid off, or were waiting to report to a new job scheduled to begin within 30 days.
>
> *Not in Labor Force* defines all persons not classified as employed, unemployed, or in the Armed Forces. These persons are further classified as "engaged in own home housework," "in school," "unable to work," "retired," and "other."

One problem with these definitions is that they classify as outside the labor force many people who are actually unemployed but have given up looking for work or are employed in illegal activities. The definitions also ignore the increasingly popular concept of underemployment. This includes all persons whose skill, education, or training qualifies them for a higher-skilled or better-paying job than they presently hold. It also includes persons only able to find part-time rather than full-time work in their fields. Despite these limitations, the historical data based on these definitions are consistent, since they have been in use since 1940. Presently, the National Commission on Employment and Unemployment Statistics is looking for possible ways to improve these concepts and definitions.

If you need information on employment by industry, the U.S. Office of Management and Budget's *Standard Industrial Classification (SIC) Manual* provides a widely used numeric system of calssifying employment establishments by type of activity. The SIC Code divides the nation's economic activities into ten broad industrial divisions identified by the first digit of the Code. For more detailed breakdowns, two, three, and four digits are used.

4. INCOME AND POVERTY

Since income is a widely accepted measure of economic well-being, it has great applicability in planning for economic development. Positive changes in income show that an area is prospering; negative changes show economic decline.

Income can be expressed several different ways, but per capita and median income are the two usually used. Per capita income is total income divided by the number of people in an area; median income is the middle dollar figure or value for the incomes of a group.

Aggregate income also serves as a measure of a region's economic development. In this context it is defined as the sum of the values of all the goods and services produced in a given period. Measured over time, this gross product indicates growth (or decline) in an economy. However, changes in aggregate income should be interpreted with care. They reflect mere population change, or inflation, rather than real economic development.

Income data can also show the distribution of spending power throughout a district, and can help to identify concentrations of low income families and individuals. Generally, poverty claims a higher percentage of rural families (especially non-white families) than of urban families. Low-income levels affect the functioning of the economic sectors, since the lower an individual's income is, the less he or she has to spend and the higher the proportion of income spent on subsistence items such as food, clothing and shelter.

Current estimates of per capita income (PCI) for all general purpose local governments were prompted by the enactment of the State and Local Fiscal Assistance Act of 1972. Areas included in this series of reports are all counties (or county equivalents such as census divisions in Alaska, parishes in Louisiana, and independent cities in Maryland, Missouri, Nevada, and Virginia) and incorporated places in states, plus active Minor Civil Divisions (MCDs) commonly towns in New England, New York and Wisconsin, and townships in other parts of the United States.

The PCI estimates use a money income concept. Total money income is defined by the Bureau of the Census as the sum of:

- Wage and salary income
- Net non-farm self-employment income

- Net farm self-employment income
- Social Security and railroad retirement income
- Public assistance income
- All other income such as interest, dividends, veteran's payments, pensions, unemployment insurance, alimony

The total represents the amount of income received before deductions for personal income taxes, social security, bond purchases, union dues, medicare deductions, etc. County PCI estimates are based on the 1970 Census. The updates for these areas are developed by carrying forward the aggregate (i.e., the sum of all individual incomes in the state or county) independently of each type of income identified in the census to reflect differential changes in these income sources between 1969 and the estimate date. Data from Federal tax returns provided by the Internal Revenue Services were used to estimate change in wage and salary income at the state and county level. All other types of income for these governmental units have been updated using rates of change based on estimates of aggregate money provided by the Bureau of Economic Analysis.

The Census Bureau's per capita income data for 1974 and 1972 for counties, county equivalents and selected other areas are available in Series P-25, of Current Population Reports. These figures represent the estimated average amount per person of total money income received during calendar years 1974 and 1972 for all persons residing in a given political jurisdiction in April 1975, and April 1973, respectively.

a. Data Source

The principal source of data on family and personal income is the Decennial Census of Population. In the most recent census conducted in April, 1970, 20% of respondents were asked to give information on total money income received in the calendar year 1969. Definitions of census terms and usages are presented along with a description of census county-level data on income. These data are found in Table 124, Volume I, Chapter C, of the 1970 Census Report.

These data include: income of families and unrelated individuals; type of income of families; and percent of families with income less than poverty level, less than 75% of poverty level, and less than 25% of poverty level.

b. Definitions

Income refers to many different measures of personal wealth and production. The major sources of local income data listed in this chapter are for personal income, wages, and salaries.

One of the more difficult problems in defining income is determining which levels should be considered low-income and which poverty level. Many federal agencies have developed standards and definitions that differ widely from one another. It is unfortunate that such a confusion exists because identifying the lower-income population is important to many local decisions. Local governments will have to choose a definition that best suits their needs from those used by federal and state agencies.

The U.S. Department of Housing and Urban Development uses several definitions to determine eligibility for various housing programs. The most widely used definitions are those for the Housing and Community Development Act, Title II, Section 8 program and the Section 235 housing program. These are based on an average family of four people and the median income of the county where the people reside.

- *Low-income:* those families whose incomes are less than 80% of the county median income. This group includes the very low-income.

- *Very low-income (poverty):* those families whose incomes are less than 50% of the county median income.

The Community Services Administration (formerly the Office of Economic Opportunity) also establishes a range of poverty income levels to determine eligibility for its social service programs. The first income level is based on a minimum budget for basic needs, while the second income level is 125% of the first.

Personal Income, as defined by the Bureau o f Economic Analysis (BEA), is the current income received by residents of an area from all sources. This is measured before deduction of income and other personal taxes, but after deduction of personal contributions to social security, government retirement, and other social insurance programs. It includes income received by persons from business; federal, state and local governments; households and institutions; and foreign countries. Briefly, it includes the following categories:

- *Wage and salary disbursements* cover payments to employees, including commissions, tips, bonuses, and payments in kind.

- Other labor income constitutes those employer contributions for private pensions, health, welfare and group insurance plans, compensation for injuries, pay of military reservists, directors' fees and so on.

- *Proprietors' income* describes the net business earnings of owners of unincorporated enterprises, including farmers and such professional practitioners as doctors, dentists, and lawyers.

- *Property income* derives from royalties on patents, copyrights' rights to natural resources and imputed net rents, personal interest incomes (including certain imputations), and cash dividends.

- *Transfer payments* signify receipts from government and business for which no service is rendered currently: pensions, unemployment benefits, disability benefits, medicare benefits, direct relief, bad debts absorbed by business establishments, and corporate gifts to private non-profit institutions, etc.

- *Personal contributions for social insurance* refer to employee contributions for old age and survivors insurance, unemployment insurance, medicare, and public employee retirement systems. It also includes similar contributions for such purposes by self-employed individuals. Personal contributions for social insurance are deducted in estimating personal income, since wage and salary disbursements report amounts are withheld by employers for this purpose.

- *Earnings* comprise about 80% of personal income and are the sum of wages and salaries, other labor income, and proprietors' or self-employment income. Earnings differ from personal income in that they exclude transfer payments and property income.

- *Disposable Income* is personal income less all personal tax payments. It represents the money actually available for individuals to spend.

- *Per Capita Income* is derived by dividing total personal income received by an area during a year by the area's mid-year population.

- *Consumer Price Index* is not an income measure per se. But it is an important indicator of the purchasing power of individuals, given their income levels. The CPI measures the changes in the average prices of a fixed market basket of goods and services bought by urban wage earners.

5. HOUSING

Housing is a primary component of an area's physical infrastructure. Both the availability and quality of residential housing are important considerations for district planning. The availability and condition of residential housing may reflect both affluence and poverty. Housing conditions are closely related to economic development (particularly the extent to which [or, (particularly the prevalence of kitchen and plumbing facilities)] exist and reflect the status of building trades and new home construction.

National data on substandard housing show higher incidence in the South, among minority groups, and among low-income families. At the end of the Sixties, 11% of the housing of rural whites and 55% of the housing of rural non-whites was substandard. The comparable figures for urban housing were 6% for whites and 24% for non-whites. By Census definition, substandard housing lacks basic items of plumbing, such as indoor toilets, and/or kitchen equipment such as a working stove and refrigerator. Delapidated housing (showing structural defects or deterioration) is also classified as substandard.

County-level data on residential housing are available through the Decennial Census of Housing, taken every 10 years in conjunction with the Census of Population. Statistics presented in the decennial housing census, include the following items: tenure, kitchen facilities, plumbing facilities, number of rooms, persons per room, vacancy status, contract rent, units in structure, mobile homes, telephones, value, automobile availability, and second home ownership.

6. BUSINESS PATTERNS

A standard reference for data on business volume and employment is the annual series of County Business Pattern Report. This series is a major source of annual time-series data at the county level on economic activity. For business pattern information on smaller local areas, Section IX.5 provides a brief review.

The Standard Industrial Classification (SIC), explained earlier, provides a useful breakdown for arranging business activity for analysis. Each information category (i.e., number of outlets, employment, sales and trends) for the business sector should be documented and analyzed by their respective SIC categories.

The reports provide county-by-county statistics by detailed *Standard Industrial Classification* (1972) code on mid-March employment, first quarter taxable payrolls, and number and employment-size of reporting units for private non-farm organizations reported under the Federal Insurance Contributions Act (FICA). Beginning with the 1974 reports, data are also presented for total annual payroll. Measures of the amount of production of business transacted (such as sales or value added) are not published in the CBP report.

The CBP reports provide coverage for activities not included in the economic censuses, such as construction activity by county, transportation (except railroads), finance, insurance, real estate, and certain services. Data on employment and taxable payrolls are withheld if the data might disclose information about individual employers.

Reports are available for the years 1946 through 1951, 1953, 1956, 1959, 1962, and 1964 to the present. However, prior to 1959 the reports do not provide the same amount of geographic and SIC detail as in the more recent reports. All reports do, however, maintain a common scope representing the following types of employment:

- All covered wage and salaries of employes or private non-farm employers and of non-profit membership organizations under compulsory coverage.
- All employment of religious, charitable, education, and other nonprofit organizations covered under the elective provisions of FICA.
- Data for the following types of employment covered in whole or in part by the Social Security Program are excluded: Government employees, self-employed persons, farm workers, domestic service workers, railroad employment subject to the Railroad Retirement Act, and employment on ocean-borne vessels.

C. The Government Sector

Government policies and actions can have profound consequences in economic development. Governments redistribute income, modify market decisions, and subsidize services deemed to be in the public interest. Through transfer payments, incentives, taxes and borrowing, the financial impact of government is felt in every sector of the economy.

Governments also have a major impact on the labor pool. The services which governments provide (transportation, health care, education, fire and police protection) require personnel from all sectors of the labor force and every occupation.

Government employment still does not reveal the full impact of the governmental sector of the economy. The financial condition of these governmental units clearly affects economic development because many development projects require local government support. Tax incentives, tax holidays, revised standards, and educational and training program efforts all cost money and are dependent on the fiscal ability of the local government to provide them.

The relationship between government and economic growth has also become more pervasive than in the past. Two developments seem to be at the root of this change. First, the public demands a higher standard of performance for the economy with respect to economic stability, the absence of unemployment, and the avoidance of economic hardship in particular groups in the society. Second, they have learned that powers of government can be used effectively to determine the ways in which the economy expands and that, within limits, these objectives are attainable.

1. RECURRENT ANNUAL CENSUS DATA

Two annual report series present data for county governments. *County Government Employment*, most recently published for October 1975, shows data for the 332 county governments which had an estimated population of 100,000 or more in 1973. Data provided show the distribution of employment and payrolls, by functions, for county governments. *County Government Finances*, most recently published for Fiscal Year 1974-75 also shows information on revenues and expenditures, by category for counties with more than 100,000 population. Both series, however, show data for county population size groups, which can be used for comparison with individual county government information. The smallest category is 100,000 or less, with figures based on a sample which includes all counties with 1970 populations between 50,000 and 99,999 and a randomly selected sample of the smaller counties.

2. CENSUS BUREAU SPECIAL STUDIES

As part of the planning activity for the property values survey required for the 1977 Census of Governments, the Bureau of the Census conducted a mail canvass of state officials associated with property tax administration. These canvasses were designed to gather information on values officially set or "assessed" in 1973 and 1975 on property subject to local general property taxation. The data are presented by state, for counties, and include data on gross-assessed value, exemptions, state-assessed property and locally assessed real and personal property.

As used in these reports, "assessment" usually means the value of property oficially determined for taxation purposes. In a sense, "assessment" is synonymous with "assessed value." In some instances apparent from the context, the word "assessment" also means the official act or function of determining the assessed value. Included are 1973 data in State and Local Government Special Studies No. 69, while 1975 data are in No. 80 of the same series. Both reports are entitled, *Property Values Subject to Local General Property Taxation in the United States.*

3. CENSUS OF GOVERNMENT

The Bureau of the Census prepares reports showing current and benchmark statistical data relating to the characteristics and functions of county governments. The Census of Governments, conducted every five years, includes data on revenues, expenditures and employment for all county governments. Recurrent annual reports show data on employment and finances of selected county governments, and special studies have been published on assessed value of taxable property for all county governments. Further descriptions of these reports follow, along with selected tables, showing data for county governments in Northeast Georgia.

Two important considerations should be kept in mind when looking at Census Bureau reports which include data on county governments. First, all data on governments are collected during October, which, being relatively free from seasonal fluctuations, has proven to be the most stable for public employment. Although financial data is reported on a calendar or fiscal year basis, data for October payroll and earnings should not be inflated into yearly figures. These October figures are for a particular time period and are not intended to represent an average amount.

The second consideration is that historical and inter-area comparisons must be made with care. Each census report attempts to maintain congruity of the definitions, concepts and data collected. On some cases, however, this is not possible. For example, an employment decline for a given governmental function does not necessarily indicate a decrease of public services. These may be "contracted out", with the contractor's employees remaining in the private sector, rather than being considered as employees of the sponsoring government. Also significant are changes over time caused by annexations, by other boundary adjustments or by changes in the demographic profile of the area served. These may affect not only the number of persons from whom public services must be provided, but also the kinds and scope of necessary services. Major changes in these characteristics make historical comparisons of little value.

IX.3 USE OF CENSUS DATA FOR SMALL COMMUNITIES

The 1970 Census reports that may be used for small areas are divided into three principal series: population census reports (the PC reports), housing census reports (the HC reports), and joint population and housing reports (PHC reports). Those most likely to be of value in small communities are briefly described in Figure IX.3. The HC(3) Block Statistics Reports and

Figure IX.2

PUBLISHED DATA SOURCES FOR SELECTED ECONOMIC VARIABLES

Variable	Data Source
Population	Census Bureau P-25 Series Reports, *1973 Population*, *1972 Income Per Capita Estimates for Counties, Incorporated Places and Selected Minor Civil Divisions*
Employment by industry	*County Business Patterns*
Total employment, labor force, unemployment, unemployment rate	State Departments of Employment Security
Median family income	*County and City Data Book*
Per Capita income	*Local Area Personal Income*
Building permits	*Construction Reports*, Series C-40, Bureau of the Census; also may be available at the local (county) level
Local government bond ratings Total assessed valuation	*Moody's Municipal and Government Manual*
New capital expenditures	*Annual Survey of Manufacturers* and *Census of Business*
Local government expenditures by functional category	Annual reports of local governments
Retail sales	*Census of Retail Trade*
Housing Prices	Interviews with local realtors

PHC (1) Census Tract Reports are generally of greatest value because of the relatively small size of the areas reported.

A. How to Use Census Reports

The clearest way to describe how to use census reports is by giving an example which illustrates, step-by-step, what is involved.

Objective: Assume that your objective is to locate information on employment and income for a particular neighborhood in a large city (50,000 or more people) or its surrounding area.

Two considerations come into play in selecting the right report: the need for small area (neighborhood) data, which are sample data (see Figure IX.3 City block data would best meet the first requirement, but no sample data can be published for such small areas. Census tracts are the smallest areas for which employment and income data are available. Therefore, you need the Census Tract Report which includes the desired city.

Figure IX.3

CENSUS REPORTS FOR SMALL AREAS

Descriptions of Selected Report Series from the 1970 Census of Population and Housing

NUMBER OF INHABITANTS PC(1)—A. One per state. Final official population counts are presented for states, counties, SMSA's, urbanized areas, minor civil divisions, census county divisions, all incorporated places, and unincorporated places, and unincorporated places of 1,000 inhabitants or more.

GENERAL POPULATION CHARACTERISTICS—PC(1)—B. One per state. Statistics on age, sex, race, marital status, and relationship to head of household are presented for states, counties, SMSA's, urbanized areas, minor civil divisions, census county divisions, and places of 1,000 inhabitants or more.

GENERAL SOCIAL AND ECONOMIC CHARACTERISTICS—PC(1)—C. One per state. These reports focus on the population subjects collected on a sample basis. Each subject is shown for some or all of the following areas: states, counties, SMSA's, urbanized areas, and places of 2,500 inhabitants or more.

GENERAL HOUSING CHARACTERISTICS FOR STATES, CITIES, AND COUNTIES—HC(1)—A. One per state. Statistics on 100% housing subjects are presented for states, counties, SMSA's, urbanized areas, and places of 1,000 inhabitants or more.

DETAILED HOUSING CHARACTERISTICS FOR STATES, CITIES, AND COUNTIES—HC(1)—B. One per state. The reports focus on the housing subjects collected on a sample basis. Each subject is shown for some or all of the

following areas: states, counties, SMSA's, urbanized areas, and places of 2,500 inhabitants or more.

BLOCK STATISTICS—HC(3). One report for each urbanized area showing data for individual blocks on selected 100% housing and population subjects. The series also includes reports for the communities outside urbanized areas which have contracted with the Census Bureau to provide block statistics from 1970 census.

CENSUS TRACT REPORTS—PHC(1). One report for each SMSA, showing data for most of the population and housing subjects included in the 1970 census. Some tables are based on the 100% tabulation, others on the sample tabulation.

To find out if a census tract or combination of tracts can satisfactorily represent your neighborhood, you need a census tract map. One is contained in each Census Tract Report. Since it is not possible to separate out data for the portions of interest to you, you must deal only with the tract having the largest portion of your neighborhood or add the data for each tract together to obtain data for the combined two or three-tract area.

Before proceeding to look up data, acquaint yourself with the key background material. It will be helpful to read the introduction to the Census Tract Report, and the discussion of census tracts and standard metropolitan statistical areas in Appendix A of the report. Also, read the definitions in Appendix B which are relevant to the data you are interested in (in this case, the definitions for "reference week," "employment status," "income in 1969," and "poverty status in 1969"). Sooner or later it will probably be helpful to familiarize yourself with the other definitions, as well.

Check the table of contents to locate the tables with data you need. Table P-3, "Labor Force Characteristics," include data on employment, and Table P-4, "Income Characteristics," includes the income data. If the tracts you are interested in have more than 400 Negroes or Spanish Americans, then Table P-6, "Economic Characteristics of the Negro Population," and Table P-8, "Economic Characteristics of Persons of Spanish Language," may provide additional useful data.

You will find that most tables in tract reports cover several pages. This is necessary because a tract requires an entire column when reported in a table. Each tract is identified in tables and on the tract maps by a code number unique within the SMSA. However, rather than being presented in numerical order for the entire SMSA, the tracts in each table are in numerical order within places of 25,000 or more and within the balance of the county. This is explained in more detail under "Content of the Tables" in the Census Tract Report.

The first section of Table P-3, titled, "Employment Status," furnishes data specifically on employment. The first few items of data for each census tract are about those people who are "male, 16 years old and over." They are followed by data for males, 16 to 21 years old, and females, 16 years old and over.

Figure IX.4

Table P-3. **Labor Force Characteristics of the Population: 1970**—Continued

Census Tracts	East Los Angeles (U)—Con.								
	Tract 5307	Tract 5308	Tract 5309	Tract 5310	Tract 5311	Tract 5312	Tract 5313	Tract 5314	Tract 5315
EMPLOYMENT STATUS									
Male, 16 years old and over	**607**	**2 073**	**1 723**	**1 053**	**1 770**	**2 051**	**2 357**	**644**	**2 506**
Labor force	451	1 558	1 196	696	1 277	1 555	1 807	500	1 868
Percent of total	74.3	75.2	69.4	66.1	72.1	75.8	76.7	77.6	74.5
Civilian labor force	451	1 553	1 176	696	1 277	1 555	1 802	500	1 868
Employed	441	1 446	1 109	642	1 091	1 464	1 646	470	1 722
Unemployed	10	107	67	54	186	91	156	30	146
Percent of civilian labor force	2.2	6.9	5.7	7.8	14.6	5.9	8.7	6.0	7.8
Not in labor force	156	515	527	357	493	496	550	144	638
Inmate of institution	8	11	–	–	–	–	49	–	–
Enrolled in school	37	166	109	94	119	179	185	54	211
Other under 65 years	71	197	203	158	168	131	155	52	278
Other 65 years and over	40	141	215	105	206	186	161	38	149
Male, 16 to 21 years old	**83**	**385**	**341**	**194**	**330**	**390**	**437**	**201**	**446**
Not enrolled in school	47	132	195	72	146	180	188	114	192
Not high school graduates	23	74	124	36	107	122	135	92	145
Unemployed or not in labor force	11	44	34	30	66	45	24	33	56
Female, 16 years old and over	**625**	**2 381**	**2 035**	**1 196**	**2 193**	**2 392**	**2 720**	**734**	**3 033**
Labor force	269	975	700	362	862	849	1 013	261	976
Percent of total	43.0	40.9	34.4	30.3	39.3	35.5	37.2	35.6	32.2
Civilian labor force	269	975	700	362	862	849	1 013	261	976
Employed	264	905	682	322	741	797	919	236	854
Unemployed	5	70	18	40	121	52	94	25	122
Percent of civilian labor force	1.9	7.2	2.6	11.0	14.0	6.1	9.3	9.6	12.5
Not in labor force	356	1 406	1 335	834	1 331	1 543	1 707	473	2 057
Married women, husband present	388	1 259	1 001	620	1 062	1 178	1 400	394	1 532
In labor force	133	430	233	167	344	355	453	86	423
With own children under 6 years	176	480	445	320	395	558	625	173	691
In labor force	58	163	106	75	125	141	162	37	120

Taking tract "5307" as an example, you can learn that 607 males, 16 years old and over, live there. Of this number, 451 are in the labor force; that is, either have a job or are unemployed and looking for work (seem "employment status" in Appendix B of the report for a complete definition of "labor force" and related terms). A few lines farther down, you see that 10 males, 16 years old and over, are unemployed—2.2% of the total number of such males in the civilian labor force.

When reading entries in the stub (left-hand side of the table), keep in mind the indentation. Except when a percent, median, or some other derived indicators are being given, indentation indicates that an entry is a part of the preceding entry. For example, under "male, 16 to 21 years old," you can see that 47 are "not enrolled in school." Of those not enrolled in school, 23 are "not high school graduates." Of those not high school graduates, 11 are "unemployed or not in the labor force." "Not high school graduates" is indented under "not enrolled in school," and "unemployed or not in labor force" is indented under "not high school graduates."

IX.4 EXAMPLES OF CENSUS APPLICATIONS

The following examples suggest a few of the ways in which census data may be of use to you in community action programs. Three examples concern fairly complicated programs and require detailed discussion. They are followed by three briefer examples.

Most specific references to census data in the following examples are for data found in Census Tract Reports and Block Statistics Reports. Figures IX.3 and IX.4 present complete descriptions of their contents. Persons living in areas which do not have tract and block statistics may use statistics for the place or county as a whole (Figure IX.2, indicates in which reports these statistics can be found) or arrange to obtain statistics for enumeration districts.

A. Establishment of Adult Education Programs

City school systems, junior colleges, or other community organizations sometimes conduct adult education programs to enable persons to complete high school, learn new skills, or study other subjects of interest to them. A CDO may find census statistics of considerable value in demonstrating the need for an adult education program or in convincing officials to add particular types of courses or to conduct courses in more convenient facilities.

The nature of the neighborhood involved suggests the types of census data which should be checked in connection with assessing the need for adult education programs. In general, data on education, employment status, income, and similar subjects are of the greatest value. Since the key subjects are based on sample results, census tracts are the smallest area which can be studied.

A quick review of some of the kinds of tract data and their implications for adult education planning demonstrates their potential value.

Table P-1

The number of persons 65 years old and over is important in determining the need for daytime and evening courses oriented towards arts, crafts, and other leisure-time pursuits.

Table P-2

The count of persons with Spanish language background or Puerto Rican birth or parentage may suggest a need for courses taught in Spanish and courses to improve English language usage.

A low percent of 16 and 17 year olds enrolled in school, and the percent of 16 to 21 year olds not high school graduates and not enrolled in school, might indicate the need for offering high school completion courses.

Counts of persons 25 years old and over in each tract by the years of school completed can help you determine the appropriate academic level for adult education courses to be offered.

Table P-3

Number and percent unemployed, along with the number of males, 16 to 21 years old who are not high school graduates and are unemployed, are useful to you in determining the need for job training and the kind which should be offered. Employment opportunities in the area are also an important determinant.

Table P-4

The number of families with income below the poverty level and with children under 18 or children under 6 may suggest the need for instruction in low budget meal planning, health care, and similar family and home-oriented subjects.

The preceeding illustrations suggest some of the ways in which census data may relate to adult education planning. Each community group will probably be able to find others which are specifically appropriate for its neighborhood. also, it will usually be necessary to consider several different characteristics in order to press for or help plan an adult education program that meets all the needs of the community.

B. Assessing Day-Care Requirements

A neighborhood's need for day-care facilities depends upon a variety of conditions, such as availability of day-care at major places of employment, availability of retired relatives or neighbors who might care for children, and the number of employed women with small children. Census data can be of value to you in assessing some of these conditions.

As with most neighborhood-related problems, relevant data at the block level are desirable. However, the Block Statistics Reports include only a couple of possibly relevant statistics. One, the number of persons 62 years and over, is a very rough measure of potential part-time day-care center employees. The other, number of families headed by women, might be helpful in judging the areas within a neighborhood where day-care center needs may be greatest.

The Census Tract Report presents information of more direct interest. Table P-1 furnishes the number of three and four year olds and the number under five by sex in each tract. Table P-2 shows the number of children (three years or older) enrolled in nursery school and in kindergarten. Table P-3 gives the number of married women, living with their husbands, with children under six years old and the number of such women in the labor force (working or looking for work). Table P-4 furnishes median and mean family income, the number of families in various income brackets, and number and percent of families below the poverty level. It also gives the number of families below the poverty level with children under six years old, the number of such families headed by females, and related statistics.

Census statistics, such as those just mentioned, may prove valuable to you for comparing areas and getting a rough idea of where day-care centers might be most needed. They do not measure actual demand, though. Additional information, perhaps generated by door-to-door canvassing of the neighborhood, would be required for that.

C. Housing Improvement

Census tract and block reports contain a great deal of information which reflects aspects of housing adequacy. For example, the number of units lacking hot water, a toilet, or a bath for private use, and the number of overcrowded (1.01 or more persons per room) units is given for each block. Similar information, in greater detail, is presented in Tables H-1 and H-2 of the tract reports. Information of this kind can be significant in a presentation or report on the need for housing improvement in particular neighborhoods.

IX.5 OTHER DATA SOURCES FOR SMALL AREAS

By tapping the records of the public and private agencies in the community, you can gather a host of useful information. Since current data about population and social patterns in residential districts are both required for planning and scarce, a variety of fragmentary sources can be consulted. Some of the most rewarding sources of small area, social statistics are discussed below:

- Records relating to housing and land use changes are available to you in the files of municipal agencies concerned with code enforcement, building permits, tax assessment, water billing, rent control, relocation and even pest control. Private real estate boards of ten monitor vacancies, sales and rentals and real estate agents sometimes have good information about particular localities.

- An excellent picture of both housing changes, population movements, economic growth and socio-economic status shifts can be inferred from the record of utility companies. Record of connections, disconnections and rates of use are the principal indicators. In some areas, utility companies develop elaborate indicators and projections for their own planning needs and make these available to the public.

- Elementary and high school registration and performance data provides regular, periodic essential information about children and families living in a district. Annual sub-area population projections are often based on school registration information. The records of technical schools and institutions of higher learning can sometimes be broken down into sub-areas.

- Post offices and telephone directories register changes of address. Precinct and ward voter registers also indicate changes of residence.

- The degree of social participation and cohesion in neighborhoods can often be inferred from election information and related public opinion polls. Also indicative is membership in churches, parent-teacher associations, unions, localized social, ethnic and recreational clubs and other community organizations.

- Information about changing patterns of consumptions may be used to infer population movements and status changes. Retail sales data from local business associations about shifts in volume, value, quality and type of merchandise are useful. Information about newspaper and book sales, television, radio, movie attendance, library, sports and restaurants indicate changing cultural and recreational patterns.

- Health department records, of course, provide vital statistics basic to interim population projections and data about such things as rates of infectious diseases and infant mortality. The epidemology of some diseases is clan-related and can be most revealing of changing conditions. Sometimes mental health records can be used to identify stressful environmental factors.

- Crime, fire and traffic accidents and violations may be indicators of status changes and of concentrated pathology in selected neighborhoods.

- Public assistance and unemployment compensation records and records from local placement agencies are useful indicators of employment and income trends.

- Local universities and colleges are sometimes a rich source of social information. Social science "data archives" in universities and "public opinion survey" agencies often supply useful specialized information.

The data sources listed above provide clues to social changes and movements in residential districts, but they must be used with discretion and judgment

since their reliability varies. Lacking an annual local census, they should be regarded as statistical improvisations, since certain ingenuity is involved in their adaption and interpretation.

Regarding Business Sector information it is crucial that CDOs have information about both an establishment's existing products and its current employment levels. For qualitative information about establishments, secondary data sources are often sufficient. The U.S. Census is the largest source of secondary data available. However, the identity of individual establishments is confidential information, so the Census is not of much use to you for areas smaller than the county. Small area planners must rely on other sources of data such as public agencies and local government services.

Branch plants of national corporations — usually very large employers — can usually be singled out by inspection or by reviewing the local want ads. These same establishments are often listed in state industrial directories that can be found in libraries and at the local chamber of commerce.

Finding the large employers should pose no problem. It is the small manufacturer and wholesaler, and the local service industry that may be troublesome. The best data sources, revised every year, are the local phone directories and yellow pages. In areas within larger metropolitan areas, "reverse directories" listed by street addresses are available. Thus, once the community boundaries are demarcated on a street map, you can use the reverse directory to prepare a master list of all commercial outlets in the community. You then recheck these with the local yellow pages for additional information on the firms' product listings and classifications according to the Standard Industrial Classification (SIC) codes.

Another extremely valuable source of information on the business sector is the Integrated Economic Census Program begun in 1954. This program was extended in 1972 to include the following censuses:

- retail trade
- wholesale trade
- selected service industries
- construction industries
- manufacturers
- mineral industries
- transportation

An excellent and concise guide to these censuses was issued in November, 1973, by the U.S. Department of Commerce, Bureau called the *Mini-Guide to*

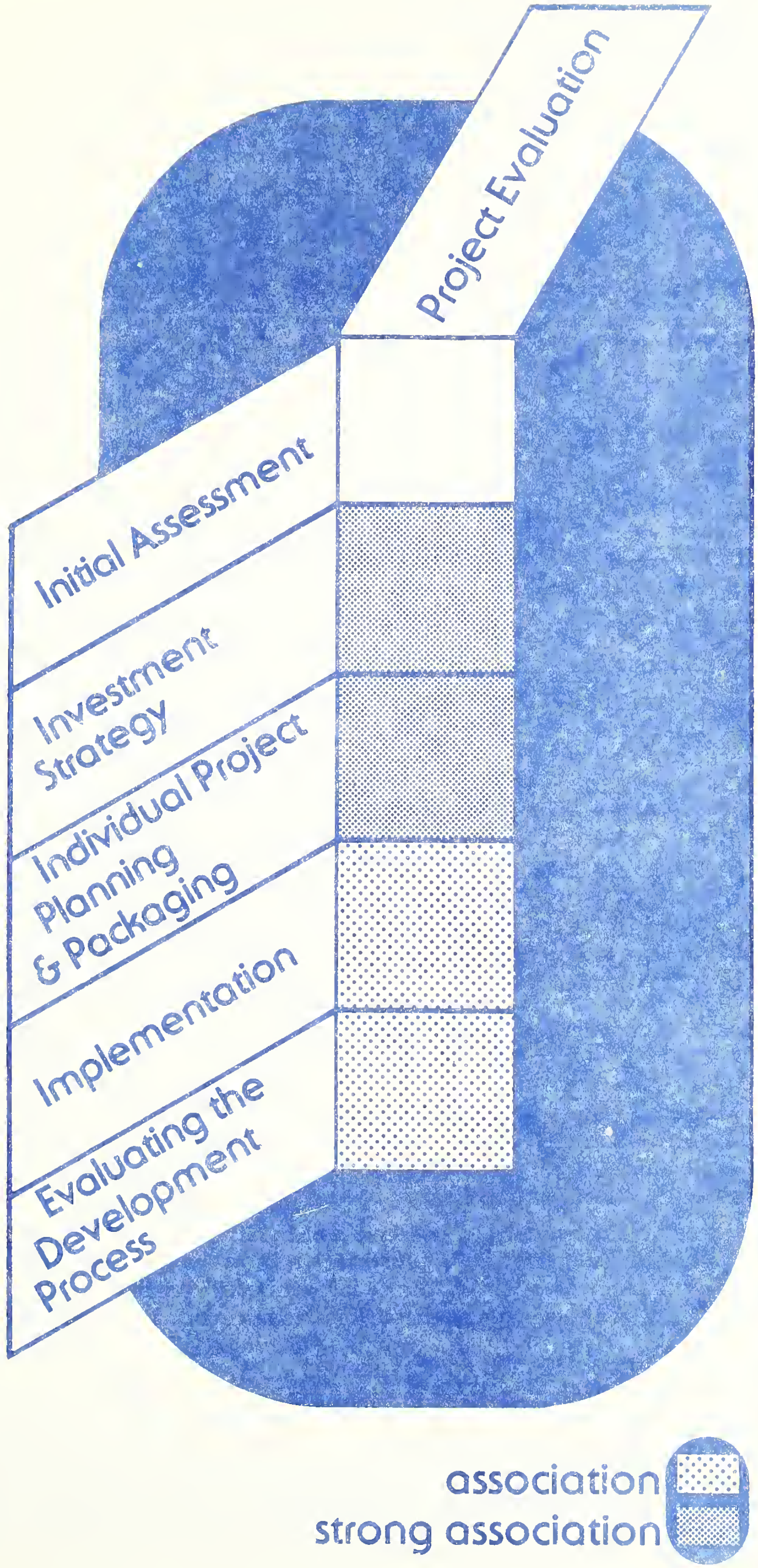
the 1972 Economic Censuses. Although most of the geographic areas for which data are available are at the larger regional level, there is a host of specific information on selected small business areas. You will find it specially helpful to acquaint yourself with these economic censuses by using this mini-guide. Figure IX.5 is a summary chart of the major data items covered in the economic censuses.

Figure IX.5

Major Data Items Collected in the Economic Censuses

Item	Economic Censuses					
	Mineral Industries	Manufacturing	Wholesale Trade	Retail Trade	Selected Services	Construction
Number of employes						
Production (Construction) workers - quarterly	X	X				X
All other employees	X	X				X
Total	X	X	X	X	X	X
Payrolls						
Production (Construction) workers wages	X	X				X
All other employees	X	X				X
Total	X	X	X	X	X	X
Operating expenses including payroll			X			
Supplemental labor costs						
Legally required	X	X	[1]X	[1]X	[1]X	
Voluntary programs	X	X	[1]X	[1]X	[1]X	
Total	X	X	[1]X	[1]X	[1]X	
Production worker man-hours quarterly	X	X				
Cost of materials, etc.						
Materials, supplies, etc	X	X	[1]X			X
Specific materials	X	X				
Products bought and resold	X	X	[1]X			
Fuels consumed	X	X	[1]X			
Specific fuels consumed	X					
Purchased electricity	X	X				
Contract work	X	X				X
Total	X	X				X
Inventories						
By state of fabrication		X				
Total		X	X			
Capital expenditures						
New structures and additions	X	X	[1]X	[1]X	[1]X	X
New machinery and equipment	X	X	[1]X	[1]X	[1]X	X
Used plant and equipment	X	X	[1]X	[1]X	[1]X	[2]X
Mineral development and exploration	X					
Total	X	X	[1]X	[1]X	[1]X	X
Quantity of electricity						
Purchased	X	X				
Generated	X	X				
Electricity sold	X	X				
Gross value, fixed assets						
Buildings and other structures	X	X				X
Machinery and equipment	X	X				X
Mineral properties	X					
Total	X	X	[1]X	[1]X	[1]X	X
Total sales (receipts)			X	X	X	X
Merchandise (commodity) lines			X	X		
Value of shipments or products	X	X				
Specific products	X	X				X
Legal form of organization	X	X	X	X	X	X
Water use	X	X				
Rental payments, total		X	[1]X	[1]X	[1]X	
Building and structures		X	[1]X	[1]X	[1]X	
Machinery and equipment		X	[1]X	[1]X	[1]X	X

[1]Data collected on a sample basis only. Totals will be available only at the U.S. level. For the census of wholesale trade, sample includes merchant wholesalers only.
[2]Used plant and equipment collected separately.


Project Evaluation
Initial Assessment
Investment Strategy
Individual Project Planning & Packaging
Implementation
Evaluating the Development Process
association
strong association

CHAPTER X

PROJECT EVALUATION

CHAPTER SUMMARY

While evaluation is a loosely used word signifying different things to different people, it is important that a CDO understand the various categories of evaluation and the basic concepts behind them.

This chapter begins with a discussion of the purpose of evaluation and an overview of its basic concepts. Then it describes and compares various methods of evaluation, including the goals achievement matrix, cost-effectiveness studies, cost-benefit analysis, the project balance sheet, and various scorecard techniques. The concluding section presents an overview of the methods and some suggestions for selecting a framework and carrying out an evaluation study.

This chapter does not cover what is commonly referred to as process evaluation, as that is covered in Chapter V. Neither has the chapter been designed to serve as a cookbook which will allow one to evaluate a project, because, as the reader will discover, doing an actual evaluation is as much an art as it is a science.

HOW THE CHAPTER IS USEFUL

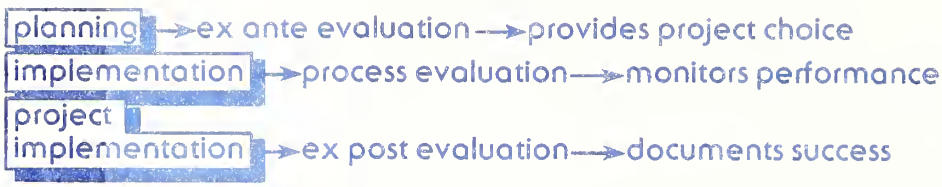
There are two important uses of project evaluation: 1) as an internal tool to assure that decisions on choice of projects are compatible with CDO goals, and 2) as a tool for showing governing agencies and others the decision making that led to the choice of particular projects. The second reason for project evaluation is tied to the issue of accountability addressed in the beginning of Chapter V. If a CDO can show that a project was selected through a rational process, for good reasons, then even if it fails it will be in a better position than it would be having to explain, "our director had this bright idea at two in the morning to . . . , unfortunately it didn't work and we lost our money."

This chapter is more technical than others. It is being assumed that CDOs are eventually going to be held more accountable over time. Currently individual government agencies have their own specific methods of evaluation. *Become familiar with them!* The underlying concepts they use are explained here. If CDOs become familiar with these concepts, they will be in a better position to plan their projects and defend their performance.

X.1 DIFFERENT USES OF EVALUATION

Project evaluation can lead to more efficient and more effective projects as a result of systematic, careful analysis of project consequences and costs. Project evaluation can be useful to a CDO when a project is in the design or planning stage, when the project is being implemented, and after the project

Figure X.1



has been completed. However, since the purpose of evaluation varies with each of these stages, it is useful to introduce terminology which distinguishes among them.

Ex ante evaluation is concerned with the anticipated consequences of a proposed project in terms of its objectives. It can play an important role in the choice among alternative projects and in the design and improvement of project plans. *On-going evaluation* or *process evaluation* is concerned with a project in operation. Evaluation at this stage is intended to monitor the project's performance and to suggest changes in current operations. In addition to assessing the program's attainment of its objectives, on-going evaluation includes administrative monitoring of financial flows, accounting systems and other record keeping, and managerial performance. *Ex-post evaluation* or *impact evaluation* documents the extent to which a completed project has met its objectives. Evaluation at this stage can be used to demonstrate a project's success to granting agencies or project sponsors. It can also suggest ways future projects may be designed to take advantage of experience gained on the completed project. Emphasis in this chapter is on ex ante evaluation but the methods to be discussed can be used in evaluation at any of the three stages, the main difference being the amount and accuracy of project data available at each stage. (This chapter does not contain discussions of procedures for administrative monitoring or data collection.)

An important part of the development process consists of identifying possible projects. However, given the limited resources of a CDO and the limited number of projects which can be undertaken, it is particularly important to determine how alternative projects may vary in terms of their effects on the community's wellbeing. This identification of the comparative advantages and disadvantages for the community of different courses of action is best carried out under a systematic and logical framework. Yet, it should be stressed at the outset that such evaluation need not be an elaborate, sophisticated, complex drain of resources. There are numerous analytical frameworks, each appro-

priate in different situations and each individually, as well as collectively, exhibiting a considerable range in data, manpower, and skill requirements.

No evaluation method is by itself a decisionmaking device. There is no simple formula which decides if a project should be undertaken. Indeed, evaluation is at least as much an imprecise art as it is a science. Yet it can be an extremely valuable aid to decisionmaking. Evaluation enables a wiser choice among alternative projects by making decisionmakers more aware of consequences for the community of particular alternatives, by encouraging systematic thought and analysis, by reducing the role of uninformed judgement, and by making better known the nature of the uncertainties and risks involved. Moreover, the very inclusion of evaluation in the decisionmaking process serves as evidence to defend the resulting decision itself as having been borne of a legitimate, deliberate, systematic analysis rather than an *ad hoc* subjective, personal choice.

Project evaluation also can enhance the value of the citizen participation process by enabling the community to be better informed, and therefore, to discuss alternatives more intelligently. A good evaluation study will identify a project's impact on different groups within the community, thereby intensifying community participation and revealing possible unintentional adverse effects on certain groups.

Substantial benefit from evaluation may be gained well before the citizen participation and the decisionmaking stages. Evaluation can play a significant role in the preliminary project design stage. If it becomes apparent that a proposed project has an unsatisfactory impact in terms of specific community goals or groups, the project's design may be modified and then reevaluated.

In short, evaluation should be an integral part of project design and selection. Preliminary evaluation can be used to eliminate some possibilities and to modify others. This can be used to facilitate more focused, informed, and productive citizen involvement and decisionmaking. Moreover, if ex ante evaluation is part of the project choice stage, the chances for meaningful on-going and ex post evaluation are increased through added awareness of key data to be collected and analyzed in the course of the project.

X.2 BASIC CONCEPTS USED IN EVALUATION

Before describing in the next section the various methods of frameworks for evaluation, it is useful to point out aspects or dimensions which all of the methods share. The methods will be discussed in terms of how they differ in their treatment of these aspects of evaluation, particularly 1) objectives, 2) incidence, and 3) timing. Each of these dimensions is discussed in turn.

A. Defining the Specific Objectives of a Project

In Chapter II some effort was put into the formulation of organizational goals and the specification of well defined objectives. Eventually, these objectives led to workable projects. Thus, each project had an objective or set of objec-

tives. Before you can evaluate there has to be some basis for the evaluation. This basis must be provided by the objectives of the project. Simply stating that the objective is to improve community welfare, or making some other similarly general statement, will not suffice. Project objectives should be stated specifically, e.g., provide job training and placement for unemployed community residents, or attract employers of local residents to available facilities.

Figure X.2

CDO #1	CDO #2
"Everything we do is for the benefit of the community."	"Our present task is to provide low cost housing for the elderly."
Lifespan: 5 minutes	Lifespan: still ticking

This concern with objectives also brings matters into focus and forces larger questions to be answered. Who is to decide what objectives are appropriate for the CDO? Who is to speak for the community? The possibilities are many. A CDO's leaders, its project planners, its board elected officials, other community spokespersons, and individual citizens each can claim to know what the community wants, needs, or should get. The legitimacy of these claims is not at issue here. The key point is that the evaluation process forces a CDO to think about community goals and ways of measuring their attainment.

Further, when two projects are compared, it becomes necessary to decide whether extra attainment of certain goals is worth less attainment of others, i.e., is a certain amount of extra community disruption worth a certain number of additional jobs? Thus, it is necessary not only to define goals into measurable objectives, but also to determine priorities and acceptable tradeoffs among them (or more technically, to assign them relative weights). The reader should not decide at this point that evaluation is an impossible luxury or a paralyzing Pandora's box for which the CDO has neither time, patience, nor resources. Pragmatic, simple approaches to all aspects of plan evaluation are possible and will be discussed in this chapter.

B. Incidence — or Who Gains or Loses from the Project?

Another aspect of evaluation is incidence. Specifically, who bears the project's consequences, whether beneficial or harmful? Alternative projects may give more to certain groups and less to others. An important role of evaluation is to identify these differing impacts. However, in selecting among projects, the need to weigh or to determine priorities is implied again, this time to decide whose benefits should count more.

For example, if one project helps primarily poverty level families in the community, while the other helps a higher income category of poor families, choosing among the projects involves choosing among the groups. Similarly, when one project design is more beneficial to a particular group, choosing among alternative designs involves deciding how important that group is.

C. The Concept of Time

In addition to objectives, attainment of objectives, and incidence, projects may vary according to timing. When will the impacts occur, e.g., when will the factory reach a certain hiring level? This aspect implies another form of weighting or determining priorities. Which project is better: one that would provide 100 jobs a year starting in six months or another that would provide 125 jobs a year starting in three years? Are the extra jobs worth the delay? How important is the timing?

D. A Decision Criterion

Evaluation studies are of two basic types. Some are descriptive and some are normative. Descriptive studies merely describe the anticipated impacts of projects. They are primarily a source of information to help decisionmakers make a more informed decision. On the other hand, normative studies actually recommend whether a project *ought* to be adopted. Therefore, normative studies have an additional aspect; they need a criterion for choosing whether the project should be implemented or not. For example, are the benefits greater than the costs?

E. Summary

So far, it has been noted that weights must be assigned to objectives, community groups, and timing. Also, it is necessary to make estimates, preferably quantitative, of goal attainment, incidence (attainment by whom), and timing (attainment when). Precisely estimating attainment is not easy. The analyst must cope with problems such as the treatment of unmeasurable or intangible impacts of a project, the estimation of indirect impacts (for example, jobs caused by the income flows generated by direct project employment), and the possibility of beneficial by-products which are of value to the community yet not considered by the official project goals. However, crude estimates often suffice.

In the next section, evaluation methods will be reviewed and compared with respect to the key aspects of project evaluation introduced here, namely objectives, incidence, timing, weights, and choice. Pragmatic approaches to evaluation will be discussed for situations of limited time, data, and other resources.

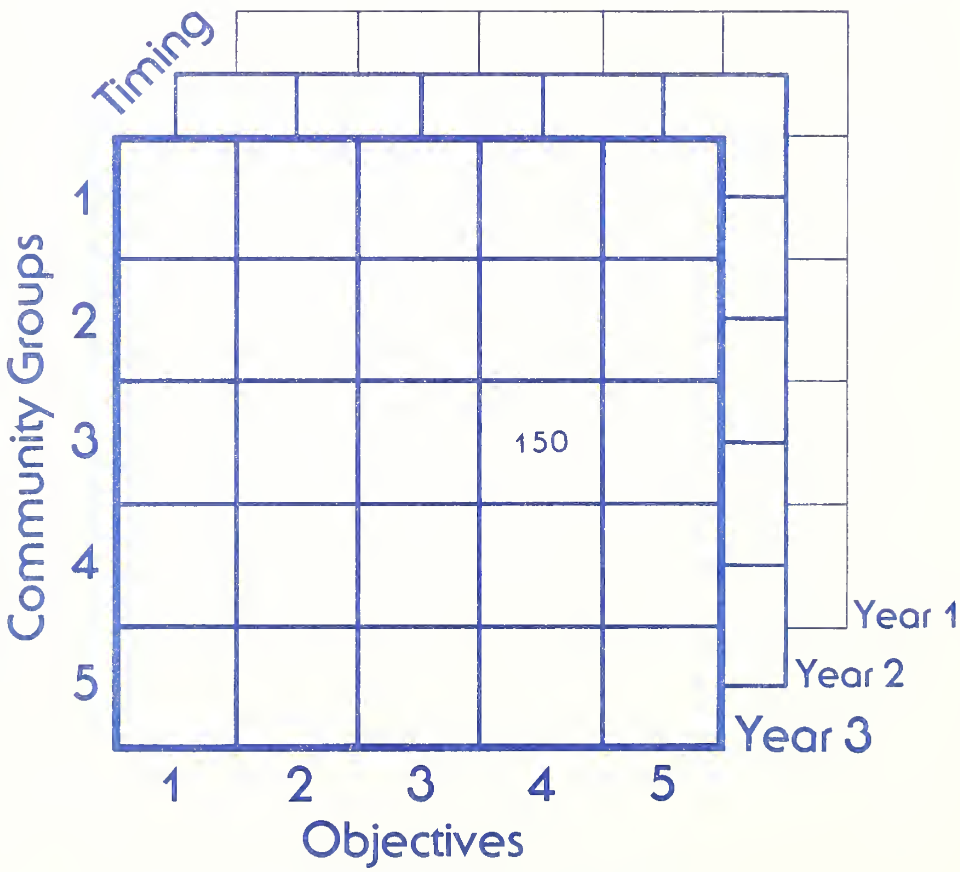
X.3 METHODS OF EX ANTE EVALUATION OR EVALUATING THE PROJECT DURING THE DESIGN STAGE

A. Descriptive Goals Achievement Matrix

The most comprehensive approach to project evaluation is the descriptive or positive goals achievement matrix (GAM). A GAM is essentially a chart which

shows the anticipated attainment of the project's goals and the distribution of that attainment among community groups (incidence). There is a column for each objective and a row for each group considered relevant to the study of incidence; See Figure X.3. Reading down a column of the table, you can see how each group is affected in terms of a single objective, for example, the number of jobs anticipated for members of each group. Reading across a row, you can see how a single group, for example, the elderly, fares with respect to all of the objectives. The timing aspect is handled by presenting separate tables for different years, generally years showing different stages of the project, e.g., construction, partial operation, and full operation.

Figure X.3



If column 4 represents employment, the number 150 in that column, row 3 indicates an anticipated impact of jobs for members of the third group.

The first step in preparing a GAM is to determine the project's objectives, including those related to the project's financial costs to the CDO. Next the relevant groups are identified. At this point the GAM has been set up, i.e., its columns (objectives) and rows (groups) have been labeled. Now it is time to

fill in the entries of the table: to what extent will each objective be attained and how will the attainment be distributed among the groups? To illustrate, entries in the column for the objective of increasing employment indicate increases (positive numbers) or decreases (negative numbers) in the number of jobs available for particular groups. Thus, an entry in the column may indicate the number of jobs expected to be created for teenage high school graduates, whereas another entry may indicate jobs for low skilled, female heads of households.

The extent to which you attempt to estimate each entry precisely depends both on the nature of the project and the time and resources available for evaluation. The most explicit approach involves trying to estimate numerically the project's impact on each group in terms of each objective. However, since the project has not been undertaken yet in the case of an *ex ante evaluation*, such estimates often can only be crude ones based on professional judgment, rudimentary feasibility studies, tentative project designs, and related experience. The other extreme of precise numerical estimates is to use a plus sign when a positive impact is expected and a minus sign when a negative one is. Between the extremes are varying degrees of specificity using a broad range, for example, 100 — 800 jobs, or a narrower one, 300 — 500 jobs.

To be more precise in describing the project's impacts the analyst must decide, often only on a judgmental basis, how much information it is feasible and desirable to collect. Relevant considerations in reaching that decision include the general magnitude of the project's impacts, the cost in time and funds of gathering further information, the benefit to the CDO in terms of a better understanding of the project's impact, and the importance of a particular goal or group.

The GAM framework can be used to describe differences among projects, as well as to describe single projects. When comparing two projects with a single GAM, the entries represent the differences between the projects. For example, if Project A would provide 300 jobs for teenagers and 150 for female heads of households, whereas B would provide 500 for teenagers and none for female heads, the comparative GAM (Project A minus Project B) would show entries of −200 in the teenager row (because A provides 200 less such jobs) and +150 in the female head row (because A provides 150 more such jobs).

The issue of precision is similar in the comparative case, but added considerations in deciding how precisely to estimate depend on several factors. You should consider whether gathering additional information will help you determine which project is better in terms of a particular objective or group. You should also consider whether the difference between the projects on a particular objective is likely to be of sufficient magnitude and importance to be estimated precisely. Since the purpose of a GAM is to present information enabling an informed selection either between alternative projects or whether to undertake a single project, this may be prepared in stages as the decision-maker requests more information and precision on specific entries important to him and crucial to the decision. Regardless of the degree of precision of the GAM entries, the exercise of systematically filling out a GAM helps the CDO become more aware of what the project may accomplish, what it will not do,

whom it may help, whom it may penalize, and whom it may ignore. In addition, it causes the CDO to think about which goals are important for the community and which community groups ought to be considered in particular. Also, preparing a GAM focuses attention on which important impacts of the project are unknown or uncertain, and which impacts are critical factors in choosing among projects.

B. Cost-Effectiveness Study

A cost-effectiveness study (CES) usually focuses on a single objective and a project's effectiveness with respect to that objective. (The term "effectiveness" in a CES means the same as goal attainment in a GAM.)

In order to do a CES, it is necessary to first select an objective and a measure of effectiveness in attaining it, and then to estimate the extent to which the project will attain the objective. Sometimes a CES is carried out with multiple objectives combined into a single measure of effectiveness, but in that case you must decide how the objectives are to be weighed relative to one another, e.g., are two objectives of equal importance or should one be counted more than the other? Alternatively, an evaluation study can consist of a number of CESs, each concerned with a single objective. Then there need be no formal weighting (although weights are implicitly assigned when a choice is made among competing projects on the basis of the CESs).

A CES can be thought of as the sum of only one column of a GAM, since the CES measures attainment of only one objective. However, where that GAM column shows how goal attainment is distributed among groups, a CES seeks only to determine the total level of attainment of the objective. If jobs were the single objective, a comparison of projects A and B in terms of their effectiveness would consist of a comparison of the number of jobs each would generate.

Timing can be handled in two ways in a CES. As with a descriptive GAM, a separate CES can be prepared for different periods in time. Alternatively, you can use a discount rate to weight the impacts in different years. That approach is discussed in the section on cost-benefit analysis.

A CES is usually intended to be normative, to show which alternative project is the most cost-effective. Therefore, you need a choice criterion. There are three such criteria depending on the budget and the question being asked.

- When the situation is one of a fixed budget to be spent, for example, a specific grant from a funding source, then the essential question is which project or group of projects costing that amount brings the most goal attainment.

- The choice criterion is based on the highest effectiveness, for example the most housing units of a certain standard.

- When the situation is one of attaining a specific level of effectiveness, e.g., attracting five employers to a proposed industrial park or rehabili-

tating 30 housing units, then the essential question is which project or group of projects costs the least to attain that level of effectiveness. Thus the choice criterion is the lowest cost.

- When neither the level of attainment or the budget is fixed, the cost and effectiveness together form the criterion. Each alternative project has associated with it levels of effectiveness and costs. A project should be selected if its additional effectiveness compared to the other projects is deemed worth its extra cost.

In short, a CES is far less comprehensive than a GAM. The CES is only an appropriate evaluation framework when one (or perhaps a few) objectives are of primary importance and incidence is of little concern beyond the specification of objectives. Because of its comparatively narrow focus, CES is often thought of as a management technique rather than as a comprehensive planning tool. The CES is generally not used to evaluate a project with diverse impacts on diverse community groups.

C. Cost-Benefit Analysis

Cost-benefit analysis (CBA) is a normative evaluation technique. This compares what the community gains from the project benefits to what the community must forego in order to achieve it (costs). If the benefits are greater than the costs, the project is said to increase the community's welfare, because the community gains some things which are valued more than the things it must give up.

CBA is able to incorporate a full range of objectives as does the descriptive GAM. However, to obtain a single total for benefits of the project the levels of attainment of the various objectives must somehow be combined. In other words, weights must be assigned to each objective. The weighting system used in CBA is based on willingness to pay. How much money would people be willing to pay for the benefits stemming from the project? All benefits of a project, be they as varied as the relation obtained in a neighborhood park and the employment made possible by that park, are assigned dollar values based on estimates of willingness to pay. The sum of such values for all the benefits of the project is the estimate of total benefits.

Typically, the starting point of a CBA is not a listing of objectives of the CDO, as is the case with a GAM. Instead, a CBA begins by listing all the anticipated benefits and costs of the proposed project. Implicitly, it is assumed that anything the community values should be included in the evaluation as either a benefit or a cost. However, this broader view of a project's objectives may be less helpful to a CDO which has its own perspective on worthwhile objectives for the community's development. The best procedure may be to begin by listing both project objectives and project benefits and costs. Then the benefits and costs lists can be reduced to those consequences relevant to the objectives of the CDO. Also, the original list of benefits and costs may suggest modifications and additions to the list of CDO objectives.

Putting dollar values on all the project's benefits and costs is not an easy undertaking. When available, market prices serve as a guide, but even these are only approximations for a variety of reasons, including limited competition, benefits or costs to individuals other than the one purchasing the good (externalities), and the fact that many individuals would be willing to pay more than the current market price, if that were necessary, to obtain a good (consumer's surplus). Moreover, the benefits of many types of projects are not goods and services sold on the market, so there are no directly observable market prices. Examples are the dollar value of time saved for transportation projects and the dollar value of lives saved and pain avoided for health. These pose important evaluation problems for which no obvious market prices exist. Proxies are often used. For example, a common valuation of the benefits received from a job training or educational program is the expected increment in lifetime earnings of the trainee.

In short, estimating benefits and costs in dollar terms may require considerable creativity, as well as awareness of the underlying theoretical structure of CBA. Thus there is no easy, computerized, mechanical "cook book" process for you to follow. Sometimes observed market prices of similar goods or services are available and serve as imprecise estimates of people's willingness to pay for the project's benefits. For example, the dollar value of the benefits from swimming in a new community pool might be estimated by the amount people are willing to pay to swim at a nearby YMCA or other private swim club with comparable services and conditions. However, in many cases, evidence of people's willingness to pay will be difficult to muster.

Incidence is traditionally not treated explicitly in CBA. A dollar's benefit is a dollar's benefit "to whomever it may occur". However, incidence is a part of CBA implicitly, because wealthier people are willing and able to pay more than poorer people for benefits they value. Thus, in a CBA, tennis courts for a higher income neighborhood may generate greater dollar benefits (based on willingness to pay) than a minibus service for the elderly to a community center and health clinic. In short, the dollar values or weights used in CBA reflect the prevailing income distribution. If that distribution is considered unacceptable, invalid, wrong, inefficient, immoral, or otherwise undesirable, so must be the CBA which incorporates the price structure and willingness to pay that are generated by that system.

The differential timing of impacts is also handled by weighting in CBA. The benefits and costs are expressed in terms of present value. The underlying question is what is the present value of the benefits which will occur in the future. In other words, what is it worth to the community today that in a certain future year specific benefits will be obtained? This part of CBA reflects the fact that individuals are not indifferent to the timing of events. For example, most individuals would rather have $100 now than $100 a year from now. In fact, those individuals who are willing to forego the $100 for a year will be given $106 in a year by a bank paying 6 percent annual interest. Thus, at a 6% interest rate, $106 a year from now has a present value of $100. Similarly, a CDO may prefer to have 100 jobs available this year rather than 125 jobs the next year. In that case, its "interest" rate, the weight you use to compare benefits which occur in different time periods, is at least 25%.

In CBA that "interest" rate is referred to as a discount rate. You use it to discount or count as less valuable the benefits which occur further into the future. More distant benefits have a lower present value. (See Appendix X.1 for a discussion of the arithmetic of the discount rate.)

The level of the discount rate used in CBA can play a crucial role in deciding whether a project has greater benefits than costs. The lower the discount rate the more favorable it is to projects with relatively early costs, such as a dam with long term benefits in terms of electricity, flood control, and recreation, or a housing project with high initial costs for land acquisition, site clearance, and construction, but longer term residential benefits.

Although the discount rate is a crucial element in CBA, there is no professional consensus as to a specific discount rate which should be used. There is general agreement that the underlying principle should be that of opportunity cost. In essence, the project should return as much as the resources devoted to it could have produced in alternative uses. However, there is little agreement beyond that theoretical concept. Agreements have been made that the discount rate should be based on: 1) the rate at which private citizens are willing to loan their money (time preference), 2) the rate of return on investments in the private sector, and 3) the cost of borrowing to governments. Moreover, it has been argued that various versions of these rates should be adjusted upward or downward. For example, some economists advocate adjusting downward the private rate of return (roughly, 14—18% before taxes) so as to recognize the greater risk in the private sector compared to government projects.

Fortunately, because of the convergence of some of the above rates the question of what rate to use for a CBA is less complex than the underlying issues. A discount rate of 6.75 to 7.25 is justified by both cost of borrowing and sometimes preference arguments; and a rate of 15% is justified on the basis of private sector return. Probably your best approach in carrying out a CBA is what is known as sensitivity analysis. Then various arbitrary interest rates between 5% and 25% are selected. Then if a project has net benefits at 15%, but passes at 10%, the project evaluation's sensitivity to the discount rate has been identified. Similarly, if it only passes at 7%, you can identify its marginal nature by CBA criteria. In short, sensitivity analysis using 7%, 10%, and 15% rates will identify unsuccessful, borderline, and successful projects under CBA principles.

A project has more benefits than costs, and thereby passes the CBA test: if the ratio of the present value of the costs is greater than one, or if the present value of net benefits (benefits - costs) is greater than zero. A project which passes one of these tests also passes the other because of their arithmetical interrelationship. However, when choosing among a number of mutually exclusive projects, their ranking is not unchangeable between the criteria. If the CDO's budget is fixed or if projects are mutually exclusive, which generally is the case, you should select the project with the greatest present value of net benefits. Other projects may have higher benefit-cost ratios but their implementation would generate less total net benefits for the community.

CBA can be considered to be a special case of a GAM, as was CES. Where a CES ignores all but one column of the GAM and then merely takes the sum of

that column, i.e., ignoring incidence, CBA takes the full GAM into consideration. However, the entire table is collapsed into a single number! The willingness-to-pay weights are used to aggregate objectives, i.e., add together columns, with costs being negative goal attainment. There is no difference among groups for incidence, so benefits by group are simply added together, i.e., the rows of each column are added together. The various tables of a descriptive GAM which describe various time periods are also collapsed into one, using the discount rate. Thus, instead of the explicit, descriptive set of tables in a GAM, a single number with normative implications, i.e., the project's present value, results from a CBA.

Although CBA may be described as a collapsed GAM with all objectives and timing being assigned weights and community groups being treated equally, the process of doing a CBA does not entail constructing a GAM. As noted, in CBA it is not necessary to specify the objectives of the CDO and to determine which community groups are important for studying incidence. Instead, the analyst begins by listing all consequences or impacts over time of the project, both benefits and costs. Then you attempt to assign dollar values to them. Finally, you use a discount rate to calculate the project's present value, adding together the net benefits over time.

The overall value of CBA stems from its normative implications, namely that the project will have a positive net benefit on the community. Its normative claim is strengthened by the argument that those benefits have been valued by amounts reflecting the community's preferences as shown by their willingness to pay. Thus, CBA is democratic in spirit; people's preferences are used to evaluate a project and, therefore, its acceptance or rejection by CBA depends on the people's choice. Moreover, the economic rationale of CBA is appealing. A project is only approved if it generates more benefits than costs; in other words, if it provides something you value more than something you have to give up. The analogy is obvious between CBA for public or non-profit ventures and the market test of profitability for private firms. Probably its democratic, private enterprise dimensions explain in no small measure why CBA is the required form of project evaluation for numerous government programs.

However, from a community development perspective, the very characteristic which gives CBA the claim to "speak for the people" is its greatest weakness. As mentioned, the "votes" in CBA are distributed in part by income distribution, since willingness to pay (the measure of people's preferences) depends in part on income and wealth. Thus a CDO may prefer not to use CBA and instead use a method which enables it to specify weights and priorities that are not based on willingness to pay. For instance, to the CDO it may be more important to provide job training than entertainment shows, but individuals may be willing to pay more for the entertainment. However, if the CDO substitutes weights or values of its own determination, reflecting perhaps its perception of the community's preferences, the CDO should keep in mind that it may be charged with autocratic, elitist behavior in rejecting those community preferences (as revealed in the market place, no matter how flawed that revelation may be.) Thus, it behooves the CDO to make an honest attempt to discover community and individual preferences instead of casually substituting its own perceptions.

D. Project Balance Sheet

The project balance sheet (PBS) is an extension of CBA. It incorporates the basic principles underlying CBA, but treats incidence and intangible effects more explicitly. The balance sheet has rows for each relevant group, as does the GAM, but, in contrast to the GAM, it does not require an explicit statement of project objectives.

Instead, it merely has two columns, one for benefits and one for costs. Like a descriptive GAM, it can describe a single project or show differences between projects.

Preparation of a PBS involves the same procedures as CBA, but, in addition, you must identify the distribution of benefits and costs among the relevant community groups. Moreover, all the benefits and costs are not simply added together for the entire community. Instead, each row shows the benefits and costs for a particular group. Thus the PBS is really a set of CBA's, one for each group. This explicit attention to community groups may reveal, for example, that a project would not generate more benefits than costs for a number of community groups, although it would do so for the community as a whole. The tabular display of incidence in the PBS might make apparent noteworthy effects on community groups which would not be recognized in the process of carrying out a CBA from a community-wide perspective.

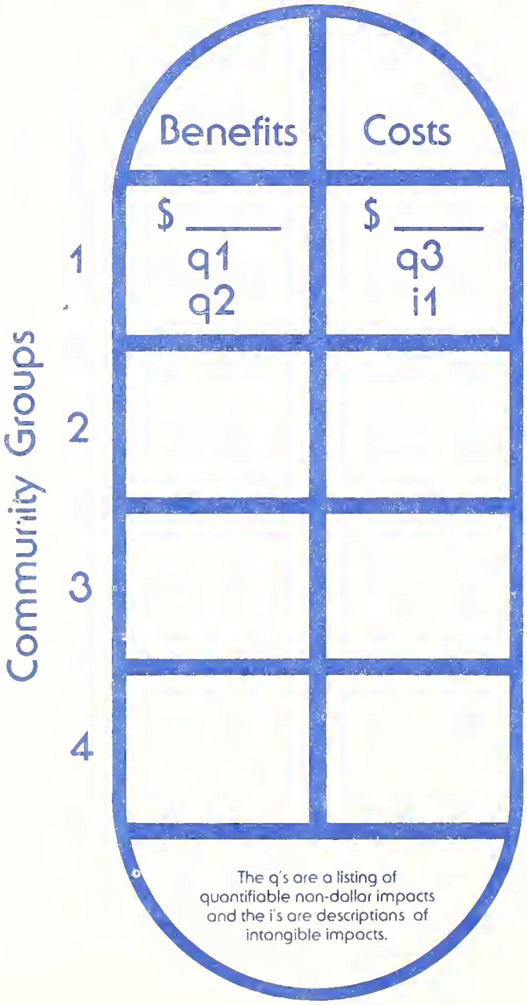
Generally in preparing a CBA, the analyst does not place dollar values on all benefits and costs. Typically, such intangible benefits as added community esteem or individuals' feelings of accomplishment, and quantifiable benefits, such as reduced crime or noise levels, are not expressed in dollar terms. However, it should be noted that what is intangible rather than quantifiable and what is quantifiable, but not in dollar terms, both depend on the ingenuity and resources of the analyst. Dollar estimates could be made of the value to individuals of each of the benefits mentioned here. However, the important point is that most CBA's, in fact, do not express all benefits and costs in dollar terms. Therefore, not all impacts are included in the normative summary measure, be it the present value of net benefits, the benefit-cost ratio, or the internal rate of return.

Although intangible effects and non-dollar quantified effects of a project usually are discussed in the text of a CBA report, it can be argued that those effects tend to be overshadowed by the effects which are estimated in dollar terms and included in the normative measure. Despite the care with which the the non-dollar effects are enumerated, in time the project becomes described by the summary measure, and the summary measure is given normative significance despite its incomplete nature. The PBS tries to avoid this possibility by listing explicitly not only the dollar values, but also the other quantifiable and the intangible benefits and costs. See Figure X.4.

In summary, a PBS has a benefit and costs account which is expressed in dollars for each group, but it also has entries for non-dollar benefits and costs. Thus the PBS can be thought of as disaggregated CBA with explicit attention to non-dollar effects and incidence. As such it may stimulate a more careful

project evaluation. However, it shares the disadvantages, discussed under CBA, of the willingness-to-pay weights. As well, implicit in listing non-dollar impacts is the recognition that that the CBA summary measure is incomplete and thus may have limited normative value. On the other hand, by listing each non-dollar effect separately, while lumping together various benefits and costs which are expressed in dollar terms, the dollar effects may be overshadowed. (Therefore, it may be useful to prepare, in addition to the PBS, a descriptive list showing separately each dollar effect and each non-dollar effect by group.)

Figure X.4



A PBS also can be thought of as an incompletely aggregated GAM with only that goal attainment added together that you can express in dollar terms and with no attempt to aggregate over community groups. However, the two methods have a basic difference in orientation. A PBS begins like CBA with the questions: what are th objectives of this project and which groups are affected by these objectives? Thus, a PBS does not require the possibly useful exercise of specifying project goals. On the other hand, in starting by listing consequenceence rather than objectives, you do not risk omitting important effects not directly related to the objectives.

E. Normative Goals Achievement Matrix

The goals achievement matrix (GAM), discussed previously as a comprehensive, discriptive framework for project evaluation, also can be used in a normative fashion for choosing among projects. However, to do so, you must assign weights or values to the various objectives and community groups which make up the columns and rows of the GAM. Once the weights are assigned and multiplied by the appropriate levels of goal attainment, you can add together the attainment levels across the various objectives and the various groups.

The end result, just as with CBA, is a single number or score for the project which summarizes the entire set of anticipated effects of the project. Using

normative GAM, the particular project which has the highest score is the recommended project. However, the meaning of the score is less precise than the concept of discounted present value used in CBA.

Indeed, the CDO has considerable leeway in selecting the weights to assign to each objective. As noted, CBA makes that determination on the basis of peoples' preferences as indicated by market transactions. Other possibilities include questionnaire surveys or interviews with community residents, leaders, and interest groups, as well as specification of the weights directly by the CDO, its analysts, or its community board. However, since the basis of the weights used in normative GAM is less rigorously defined than the willingness-to-pay basis of the weights in CBA, the CDO may find itself being criticized for its choice of weights.

It would be surprising to find consensus on the weights, since diverse groups need not have the same priorities. A typical strategy is to calculate "average" weights from the information gathered, but a more useful approach may be to carry out the evaluation of alternatives using the various sets of weights put forward. This form of sensitivity analysis may show that, although there is no consensus on weights, the disagreement is of little consequence because the same project is preferred with each of the sets of weights. On the other hand, if different projects are preferred with different weight sets, the evaluation results may provide a basis for project modification and compromise in order to gain wider acceptance for the eventual choice.

Community groups must be identified for the study of incidence, and weights must also be assigned to each of them. It may be very difficult to reach consensus here, since these weights determine who will gain from the project selection. One approach to this dilemma is to have elected community officials determine the weights, but their choice may reflect voting power and be inconsistent with the CDO's perception of need.

Perhaps the greatest shortcoming of a weighting system such as this, regardless of how the weights are derived, is that weights can be expected to change with the level of goal attainment. For example, reducing illiteracy becomes a less critical objective after the literacy rate moves from 60% to 95%. This weighting difficulty can be overcome partially by defining objectives in steps, such as increasing the literacy rate to 75% as one objective and increasing it to 95% as a second, less important objective. However, since the relative weight or importance of any one objective actually depends on the level of attainment of all the other objectives, the problem cannot be completely solved. In CBA the assumption is made that the project is not large enough to affect the relative prices of goods and services, i.e., their relative values. Similarly, with a normative GAM it can be presumed that the weights are invariant over the anticipated levels of goal attainment. However, presumption may not be appropriate for a large scale community development project aimed at attaining diverse objectives.

In conclusion, carefully obtaining a single normative score using the GAM approach may not be worth the effort, particularly given the probably limited credibility of the weighting system. The main benefits of a GAM stem from

the underlying consideration of objectives, attainment, incidence, and timing, but these benefits may be derived from the descriptive GAM without a need to specify weights.

F. Scorecard Techniques

The term, scorecard technique, refers to any of a number of relatively simple evaluation methods which consist of 1) rankings, 2) scores, or 3) checklists. The first step in scorecarding is to prepare a list of criteria, objectives, or desired features for the project. Then the alternative projects are ranked according to the criteria or assigned point scores in some other fashion. The result is a descriptive table like a GAM, but with probably far less detail regarding either objectives, attainment, incidence or timing. See Figure X.5.

Ranking tables can be prepared quickly, but you should be careful in using them. Too often simple procedures contain questionable, hidden assumptions. Sometimes a ranking table will show that one alternative is better than the others on all criteria, but generally that is not the case. The temptation is great to simply add up the ranks and to recommend as best the alternative with the lowest score. (To illustrate, a score of 30 results from 2 firsts (2 x 1), 1 second (1 x 2), 2 thirds (2 x 3) and 5 fourths (5 x 4) on 10 criteria.) However, this temptation should be resisted, because it unthinkingly presumes both that each criterion is equally important and that the difference between ranks is equally important.

Figure X.5

Ranking

Criteria \ Project	1	2	3
1	3	1	2
2			
3			
4			
5			

The entries in the first row indicate that the second project was ranked first on the first criterion, etc.

A variation of this procedure involves assigning weights to each criterion, and multiplying the weights times the ranks.

For example, you may regard one criterion, generating jobs, as very important and assign a very high weight. However, if the alternative projects are very similar with respect to job generation, say 715 and 710 jobs, that negligible difference in fact will make a big difference in the final score. A descriptive approach, which simply shows a difference of five jobs, is far more informative than a score card which shows ranks of 1 and 2 and multiplies those rankings, say by 10 weighting points, to show scores of 10 and 20.

Although weighting and ranking schemes can be made more

complex (a first is worth 10 points, a second is worth 5, a third is worth 3, etc.), the underlying weakness of any ranking technique remains. Ranking methods fail to show very important information: namely, how large are the gaps in attainment between ranks; how much better is number one than number two and number two than number three; are the gaps large enough to recommend a particular project according to these criteria; and what are the tradeoffs among the projects in terms of goal attainment?

Although weighting and ranking schemes can be made more complex (a first is worth 10 points, a second is worth 5, a third is worth 3, etc.), the underlying weakness of any ranking technique remains. Ranking methods fail to show very important information: namely, how large are the gaps in attainment between ranks; how much better is number one than number two and number two than number three; are the gaps large enough to recommend a particular project according to these criteria; and what are the tradeoffs among the projects in terms of goal attainment?

Point tables permit somewhat greater differentiation in attainment among projects than do rank tables. Instead of ranking each project on each criterion, each project is assigned points. There may be a maximum score of say 20 points for the criterion of job generation, and the two projects with 715 and 710 jobs may be assigned 17 points each, thereby reflecting their similarity far more than the ranks of 1 and 2 (which, strictly speaking, indicate a 100% difference between them). Thus, the point system is more informative than the rank system. See Figure X.6.

Figure X.6

Points

Criteria	Project 1	Project 2	Project 3
1	50	95	60
2			
3			
4			
5			

The entries in the first row indicate that the second project was awarded 95 points on the first criterion, etc.

The point system also treats somewhat more satisfactorily the relationship between weights and attainment. The total points possible for a criterion reflect its importance, but if there is little difference in attainment between two projects the weight you assign to the criterion is immaterial, since both receive the same score. However, you should review the point assignments carefully to decide whether differences between projects in points seem merited by the actual differences. The rather arbitrary and judgmental quick decision, which may underly the point assignments, makes it especially important to experiment with the numbers in order to identify the sensitivity of the recommendations.

The checklist system is a cruder version of the rank and point systems. Symbols such as pluses, checks, minuses, and zeros (and even double and triple pluses, etc.) are used to indicate whether a project is oriented toward a particular objective or criterion. This is perhaps most useful at the earliest stages of project design when a basic strategy is being selected. The checklist can summarize quickly which strategy is relevant to which goals.

The main difference between the scorecard techniques and GAM and PBS is one of degree. In a GAM or a PBS the attempt is made to quantify the actual differences among plans in units of goal attainment or in dollar terms. However, when quick estimates of pluses and minuses and other shortcuts are used with the GAM or PBS frameworks, the distinction between them and the simple scorecard techniques begins to blur.

X.4 CHOOSING AMONG METHODS

As has been discussed, there are various frameworks for project evaluation, each with different emphasis and detail, different procedures and output, and different data and skill requirements. The purpose of this section is to develop a perspective for choosing among methods and to offer some procedural suggestions.

Systematic thought and analysis are the essence of evaluation. For a CDO typically faced with a great variety of possible projects, it is extremely important to think about objectives and the differences among projects in attaining these objectives. The added selfawareness probably is sufficient benefit to justify including some form of evaluation in the development process.

Also, it is extremely important for the CDO to be aware of the implications of alternative projects for the different groups making up the community. More generally, evaluation should reinforce the CDO's consciousness of the pluralistic nature of the community and the diverse needs of its constituents.

Thus, an important criterion in selecting an evaluation framework is the extent to which this stimulates systematic thought about project objectives and community groups or incidence. The criteria of data, skill, and manpower requirements are less important in selecting a framework, since each of the methods can be carried out with varying degrees of precision and detail. However, those requirements become relevant in deciding how carefully to carry out a study within a particular framework. Finally, when you select a framework, you should keep in mind that the methods discussed in the previous section are but general types. There is no single correct procedure within any framework, and the analyst is free to adapt the framework to his own needs or to develop his own hybrid procedure.

The emphasis placed here on objectives and incidence indicates endorsement of the descriptive GAM framework, but each of the other frameworks (CES, CBA, PBS, and ST) can be extended to include specification of the project's objectives and the incidence of attainment, thereby incorporating this desirable feature of GAM. For example, before you aggregate benefits in dollar terms in either the CBA or PBS frameworks, those benefits can be described

in terms of attainment of project objectives. Similarly, if you use CES because there is only a single objective and measure of effectiveness, incidence can be described before attainment is aggregated.

In short, whatever framework you select, a useful first step in project evaluation is to specify objectives and identify community groups.

Once objectives and groups have been designated, the key question becomes, in what terms should you measure attainment and incidence and how should you do so? Specification of attainment and incidence by ranks, points, actual units, and dollar equivalents requires successively more information, resources, data, and skill. However, your choice of the unit of measure also determines the ultimate value of the study.

It is not necessary to make the same choice for all objectives. A single evaluation study may show attainment of some objectives in ranks, others in dollars, and others in non-dollar units. For example, an evaluation study comparing two projects may conclude that Project A generates 175 more jobs than Project B, increases community capital assets by 12.1 million dollars less, generates more community pride and identification, and has a 20% greater chance of operating without subsidy after five years. In short, you need not adhere slavishly to a single framework or a single type of measurement for a descriptive evaluation study.

The precision of measurement is an issue similar to the type of measure. Whatever framework you use, a necessary input is the anticipated effects of the project for ex ante evaluation and the actual impacts for ex post evaluation. The quality of the information in the ex post case depends on the care with which the data were collected during the project's operation, the degree to which project impacts can be isolated from events which would have occurred anyway, and the skill with which indirect effects are estimated (which may include the development of multiplier models like input-output or economic base). The main difference between ex ante and ex post evaluation is the greater uncertainty and imprecision in the former, because the project has not been undertaken yet. In a sense, the analyst must forecast impacts.

Decisions on the type of measure and the precision of measurement should be guided by one overall consideration: would the added information be sufficiently important and helpful to justify the added effort. At times the answer will be no. For some projects, a clear enough picture for decisionmaking purposes will result from simple ranking or point schemes. At the other extreme, it may be necessary for you to prepare a careful cost-benefit study to satisfy project requirements.

Another important consideration is whether to prepare a normative evaluation or to stop at a descriptive evaluation which considers objectives and incidence. In most cases descriptive evaluation suffices. There are two flaws of normative evaluation: 1) a tendency to focus on the summary measure, indicated by the choice criterion, and not on the project's specific effects, and 2) the necessity to develop a system of weights. The second is a more important limitation. Any weighting scheme will be impeachable, and a normative study is robbed

of its normative value to the extent that the underlying weights can be questioned. Fortunately, except when CBA is required, the CDO need not carry out a normative study. Since little seems to be gained from the weighting excercise, resources which would have been spent on weighting may be better spent on describing the project's effects more precisely and with greater certainty.

In summary, the essence of evaluation is systematic thought about a project's outcomes. The method and detail of a particular study depend on the information you need for decisionmaking. However, the study should include a careful consideration of objectives and relevant community groups. Simply stated, this requirement forces you to think about what the CDO is trying to do and for whom it wants to do it. Within that context, evaluation quite appropriately is carried out with varying degrees of precision.

IF YOU WANT TO READ MORE...

Robert H. Haveman and Julius Margolis, *Public Expenditure and Policy Analysis.* 2nd edition (Rand McNally, 1977), 591 pp.

An excellent collection of 25 readings with an introduction by the editors. The readings include various aspects of cost-benefit analysis and five evaluation studies. Intermediate level concerned only with IBA among the evaluation framework.

Morris Hill, *A Goals-Achievement Matrix for Evaluating Alternative Plans,* Journal of the American Institute of Planners, Vol. 34, No. 1, January, 1968, pp. 19-29, and exchange with John Brandl, Vol. 35, No. 2, March, 1969, pp. 139-142.

Presentation of the goals-achievement matrix by its originator and a perceptive critique of its normative use.

Morris Hill, *Planning for Multiple Objectives* (Regional Science Research Institute, 1973), 267 pp.

Lengthy presentation with example of the goals-acheivement matrix.

Harley H. Hinrichs and Graeme M. Taylor, *Program Budgeting and Benefit-Cost Analysis* — Cases, Text and Readings (Goodyear, 1969), 420 pp.

Introductory readings on various aspects of evaluation and cost-benefit with case study materials not directed primarily at CDOs.

Harry Hatry, Louis Blair, Donald Fist, and Wayne Kimmel, *Program Analysis for State and Local Government* (The Urban Institute, 1976), 155 pp.

A step-by-step discussion of cost-effectiveness with information and procedures also relevant to other evaluation frameworks. Written for government officials, it is the closest to a handbook of any of these sources.

Nathaniel Lichfield, Peter Kettle, and Michael Whitbread, *Evaluation in the Planning Process* (Pergamon, 1975), 325 pp.

The best overview and comparison of the alternative evaluation techniques with six detailed assessments of recent plan evaluations. Written by the originator of the planning balance sheet (herein referred to as project balance sheet), the book discusses the role of evaluation in the planning process. Although aimed at planning, the book is valuable for CDOs.

E.J. Mishan, *Cost-Benefit Analysis and edition* (Praeger, 1976), 454 pp.

A careful detailed study of the theory of cost-benefit analysis. Perhaps the most difficult of the sources noted here.

E.J. Mishan, *Economics for Social Decisions: Elements of Lost-Benefit Analysis.* (Praeger, 1972), 151 pp.

An abridged version of the first edition of *Cost-Benefit Analysis.*

E.S. Quade, *Analysis for Public Decisions.* (American Elsevier, 1975), 322 pp.

*An excellent, in*termediate level treatment of many facets of evaluation, including a carefully reasoned step-by-step presentation focusing on cost-effectiveness.

Lyn Squire and Herman G. Van der Tax, *Economic Analysis of Projects.* (John Hopkins Press, 1975), 153 pp.

A sophisticated discussion of the cost-benefit analysis. A World Bank publication, its context is primarily national and international projects.

Edith Stokey and Richard Zeckhauser, *A Primer for Policy Analysis* (Norton, 1978), 356 pp.

An introduction to concepts and methods of policy analysis, with two chapters on cost-benefit analysis.

United Nations Industrial Development Organization, *Guideline for Project Evaluation.* (United Nations, 1972), 383 pp.

Another fairly advanced book on cost-benefit analysis with an international context, but with economic development examples.

APPENDIX A

GLOSSARY OF TECHNICAL TERMS

A

ACCOUNTS

Payable — Accounts for the records of a business showing amounts owed creditors for raw materials, finished goods or supplies inventory sold to the business on credit.

Receivable — Accounts on the records of a business showing amounts owed to the business for custormer credit sales.

ACCOUNTS RECEIVABLE FINANCING

Short-term loans that are secured by a pledge of accounts receivable. Factoring companies also supply financing to a firm based on accounts receivable, but via purchase rather than a pledge of receivables. In the latter case, the factor assumes the credit risk; in the former, where accounts receivable are pledged, the credit risk remains with the debtor.

APPRAISAL

An assessment, by a professionally qualified person, of the current value of tangible property for a particular use.

ARTICLES OF INCORPORATION

A legal document required by and filed with the state government where the corporation is chartered. This document describes the purposes for which the corporation is formed and how the corportion will be organized.

ASSESSED VALUE

For purposes of property tax collections, 25% of the market value.

ASSETS

Business property acquired at a measurable cost, the use of which is related to the business operations.

Fixed — Tangible property, such as machinery, with a relatively long working life, used in the production of goods and services.

AVERAGE COSTS

Total costs divided by the total number of units of goods or services produced.

B

BOOKS

The written records of account for a business.

BUSINESS DEVELOPMENT GRANTS

Funds provided to economic development groups that carry no obligation for repayment.

BY-LAWS

Rules, regulations and controls set by the Board of a corporation for the conduct of its business.

C

CAPITAL

Fixed — The investment required to purchase assets intended for use over a long period of time. Such assets include items like land, buildings and equipment.

Paid-In — The amount of capital realized from the sale of the initial and later issues of par value stock.

Surplus — The difference between the amount of capital realized from the sale of stock and what the stock would have cost if it had been sold at par value. Also, additions to capital which are not realized from the operations of the corporation.

Working — The investment required to provide assets used up in the day-to-day operations of the business. Such assets include cash for payroll, the purchase of inventory and cash to cover the credit to customers.

CASH SURRENDER VALUE OF LIFE INSURANCE

The money an insurance company will pay to the policyholder if he gives up the insurance policy.

CHARTER

A legal document in which the state government grants a corporation the right and privilege of doing business. The document describes in general terms the purposes for which the corporation has been formed.

CHATTEL MORTGAGES AND EQUIPMENT LOANS

Intermediate-and long term loans that are secured by the assignment to the bank of specific items such as machinery and office equipment.

COHORTS

Groups of people of the same age period, usually grouped by five or ten years (0-5 years, 5-10 years, etc.).

COLLATERAL

Property earmarked as the security or guarantee for the payment of a debt or performance of a specific act.

COLLATERAL LOANS

Loans that are secured by a pledge of property such as stocks or bonds.

COMMODITY LOANS

Short-term farm loans secured by goods or merchandise that can be placed in acceptable storage, are transportable, and can be classified as to quantity and quality.

COMMON STOCK

Stock that has no right or priority over other stock of the corporation as to dividends or distribution of assets upon liquidation.

CONDITIONAL SALES CONTRACTS

Contracts in which the seller holds title to the goods sold until payment has been completed. Such contracts are used to finance a substantial portion of new equipment bought by businesses and farms.

CONSUMER PAPER

Installment contracts bought by consumer finance companies from the firms selling on time. The finance company often pays the seller a discounted value for the contract.

CONSUMER PRICE INDEX (CPI)

Established by the U.S. Department of Labor, it indicates the changing purchasing power of the dollar from a given base year. The CPO is found by measuring the change in the average price of a fixed market basket of goods and services bought by urban wage earners.

CONTRACT

Prime — A contract to perform all the work to be done

Sub- — A contract with the prime contractor to perform part of the work to be done under the prime contract.

CORPORATION

An artificial being or legal entity which has a legal life separate and distinct from the persons who own it. A corporation can enter into a contract without making its owners personally liable to perform it.

COST-BENEFIT ANALYSIS

A method for evaluating project alternatives in order to find the most efficient allocation of resources. Such analyses are supposed to include all real, pecuniary, direct, indirect, tangible, and intangible costs and revenues. The total costs and revenues are computed to determine the cost-benefit ratio and the net benefit of each project. The project with the highest net benefit will give the highest return for public monies invested.

COST-EFFECTIVE ANALYSIS

Compares alternative projects or plans to determine the least costly way to achieve desired goals. Usually some index or point system is developed to measure the effectiveness of the proposal in meeting the goals and objectives: A cost-effectiveness ratio is then computed for each alternative.

COVENANTS

Terms and conditions of a legal agreement relating to the transfer of property interests. A covenant is similar to a promise or an obligation to do or refrain from doing some specific act.

CROP INSURANCE

An all-risk insurance provided by a federal agency (Federal Crop Insurance Corporation) to farmers to ensure against crop income loss from such natural causes as floods, freezes, etc.

CROP LIENS

The assignment of crops in production as security for short-term loans for operating and production purposes. These liens are usually considered effected when crops are planted.

CROSS IMPACTS

Describes the interrelationships among the economic impact areas. A proposal which imposes a change in one economic area may trigger a number of changes in other economic areas as well.

CUMULATIVE IMPACTS

Total or ultimate economic impacts which result from a number of different projects or proposals.

D

DEALER RESERVE FINANCING

Financing arrangements that usually permit a dealer to draw up installment contracts on his own premises, with the dealer also responsible for collection. The installments are then sent to the lender to repay the loan.

DEBT, CONVERTIBLE

Debentures (bonds) that can be converted into common stock at a future period at a price per share that is fixed when the debenture is issued.

DEBT, SECURED

Debt secured by pledges of inventory, receivables, equipment, real estate, etc.

DEBT, SENIOR

Debt which has claims (on assets and incomes) that rank higher than other debt and equity claims. For example, senior debt has priority over subordinated debt and preferred stock.

DEBT SERVICE

The amount of money required to make annual paychecks of principal and interest on a loan.

DEBT, SUBORDINATED

Debt that in the event of liquidation cannot be paid until all senior, unsubordinated debt (bank loans, typically) has been paid.

DEBT WITH WARRANTS

Debt that carries the right to purchase additional stock in the business at prices and for a time agreed to when the debt is issued.

DEBT, UNSECURED

Debt without pledge of equipment, real estate, or other assets.

DISADVANTAGED, LOANS TO

Special loans for small business development that are available to those in a low-income bracket or to other socially disadvantaged individuals.

DISBURSE

To release funds.

DISCOUNTING FOR PRESENT VALUE

A method for evaluating future costs and benefits associated with current investment decisions. It is based on the premise that benefits received in the future are worth less to people than benefits received now, a concept known as the time-value money. That is, if people forego the use of money for immediate benefits by investing it in some future use, they expect to receive a greater return of benefits in the future. Discounting for present value reduces future costs and benefits to their present worth to people in terms of expected returns. The "expected return" on an investment is represented by the current rate of interest. The present value of future costs and benefits represents the sum that would provide an equivalent income stream, if held in a form which yielded the current rate of interest.

If the present value of future net benefits equals or exceeds the investment cost, then the return on the project makes it a worthwhile investment. The formula for determining present value is:

$$PV = \Sigma \frac{(B - C)_n}{(1 + i)^n} \quad \text{or,}$$

$$PV = \frac{(B\text{-}C)_1}{1 + i} + \frac{(B\text{-}C)_2}{(1 + i)^2} + \frac{(B\text{-}C)_3}{(1 + i)^3} + \ldots + \frac{(B\text{-}C)_n}{(1 + i)^n}$$

PV = present value

where: (B-C) = benefits minus costs

n = the number of years of the project

i = the discount rate or current rate of interest

Σ = the sum of

In reality, there is no one current rate of interest. The definition usually accepted by local governments is the "rate at which governments must borrow funds for necessary public improvements," generally the interest rate paid on municipal bonds. This rate may vary considerably in different situations and discounting will yield different results when the interest rate changes. A higher rate makes the early years of a project more important and favors shorter term investments. The lower the interest rate, the more favorable future consumption and longer term investments. Consequently, many people advocate a lower "social rate" as private market rates underestimate the importance of future consumption and benefits which may not be quantifiable. Others advocate the use of a higher private market rate to reflect consumer preference for present consumption over future consumption.

DISPOSAL INCOME

As defined by the U.S. Bureau of Economic Analysis (BEA), it is personal income, less all personal tax payments. It represents the money actually available for individuals to spend.

DRAWDOWN

To draw against or obtain funds from an amount set aside.

E

EARNINGS

As defined by the U.S. Department of Labor, earnings comprise about 80% of personal income and are the sum of wages and salaries, other labor income ("fringe benefits"), and proprietors' or self-employment income. Earnings differ from personal income in that they exclude transfer payments and property income.

ECONOMIC BASE

A method of classifying all productive activity into two categories: (1) basic industries which produce and sell goods that bring in new income from outside the area; and, (2) service industries which produce and sell goods that simply circulate existing income in the area.

ECONOMIC EFFICIENCY

Characterizes either the least costly mix or goods or the maximum amount of goods at a given cost. In the context of the manual, this means the best mix of land developments, environmental quality, public programs, and other private goods and services for the least costs, where costs include not only direct economic costs but also indirect social and environmental costs.

ECONOMIC INJURY LOANS

Loans made by the Small Business Administration (SBA) to help them recover from the effects of being displaced by urban renewal or highway programs, or being financially injured by requirements of the consumer protection acts of 1967, 1968, and 1970.

ECONOMIES OF SCALE

These come into play when a larger entity can, by virtue of size, reduce the unit cost of production.

ECONOMIC OPPORTUNITY LOANS (EOLs)

Loans and loan guarantees, provided by an SBA program, of up to $50,000 for terms of up to ten years for working capital and fifteen years for equipment and building expansion financing. Under EOLs, the SBA requires the pledging of any worthwhile collateral.

EMERGENCY FARM LOANS

Loans made by the Farmers Home Administration (FmHA) to assist farmers and ranchers in covering losses resulting for designated disasters.

EMPLOYED PERSONS

As defined by the U.S. Department of Labor, all civilians who did any work for pay or profit during the pay period which includes the 12th of the month, were on a payroll but unable to work during the week because of vacation, illness, trade dispute, or time off for personal reasons, or worked 15 hours or more without pay in a family-operated enterprise.

EMPLOYMENT TRAINING SUBSIDIES

Payments provided to offset a company's added costs of counseling, job-training, and otherwise assisting disadvantaged individuals to become fully productive workers.

ENTREPRENEUR/OPERATOR (E/O)

One who organizes, manages and assumes the risks of the business or enterprise (this includes an individual E/O or a CDC).

E/O's DRAW

The salary the owner of the business pays himself for the services he renders to the business.

E/O's EQUITY

Money to be used in a business, invested by the owner(s) rather than loaned by creditors.

EQUITY

A financial interest in the assets of the business by the owner, other creditors or other investors.

ESCALATION CLAUSES

Clauses in the lease setting forth the formula for how much rent and taxes the tenant must pay if the conditions existing when the lease is signed change. For example, if the tenant's sales increase above a certain level, the business may have to pay a percentage of the increase as additional rent. Or, if real estate taxes go up, the tenant may be responsible for paying all or some portion of the increase

ESCROW

Monies held in trust by a bank, lawyer or other authorized institution or person until the occurence of a predetermined condition.

EXPENSE

Fixed — Expenses which do not change over time and can be translated into predetermined predictable dollar amounts. For instance, rent is a fixed expense unless it is tied to the amount of sales a business has.

Variable — Expenses which vary according to the amount of sales a business had and cannot be translated into predetermined predictable dollar amounts. For instance, if rent is figured at a percentage of sales, it is a variable expense.

EXTERNALITIES

The social costs that result from the production or consumption of goods and services not included in the normal market costs or pricing system. For example, an industry emitting air pollution may create externalities through damage to people and property in the area. The damage costs are not included in the industry's costs of production.

F

FACILITY CONSTRUCTION LOANS

Loans to construct, expand, or convert plant or farm facilities. Secured by liens on facilities. Some loans can be used only for certain kinds of facilities.

FACTOR PURCHASE GUARANTEE

A payment guarantee to a supplier of a factor's client. The guarantee often allows the client to purchase goods at a discount, which otherwise would have been impossible.

FACTORING

Accounts receivable financing arranged through the purchase (at a discounted price) of a company's receivables. The collection risk is assumed by the factoring company that purchases the receivables.

FAIR-TRADED

Merchandise which is sales ticketed by the manufacturer or wholesaler. The sales ticket states their suggested retail price for the item. The business cannot be required to charge this price but, if it does not, the manufacturer or wholesaler may choose not to sell to the business.

FARM AND FARMLAND MORTGAGES

Bank loans secured by pledge of farm real estate.

FARM IMPROVEMENT LOANS

Long-term loans for the repair, betterment, and/or construction of farm buildings and facilities.

FARMLAND DEVELOPMENT LOANS

Loans for the betterment of farmland: for irrigation, drainage, soil conservation, erosion control, development of grazing land, etc.

FIRST-STAGE PROJECTS (Venture Capital Financing)

A venture capital investment in a company which is up to a year old and usually losing money and whose profits could be one to three years in the future.

FISCAL DISPARITIES

The varying abilities of local governments to raise revenues, given the difference in their tax bases (assessed values, sales tax per capita, etc.).

FISCAL IMPACTS

The direct and indirect costs incurred and revenues received by local governments resulting from land use and other types of decisions.

FISCAL ZONING

The use of zoning and other regulations as a tool to exclude certain types of land uses which may require more public services that the area wishes to pay for.

FIXTURE

A chattel so annexed to realty that it may be regarded as legally part of it; a permanent appendage or structural part.

FLOW PLAN

An outline or design by which raw materials progress through a manufacturing process.

FRANCHISE

A legal agreement by which a manufacturer or chain grants the exclusive right to sell the merchandise it produces or to use its firm's name to sell merchandise in a limited geographical area.

FRINGE BENEFITS

An employment benefit granted by an employer to his employees which involves a money cost to the employer without affecting the wage paid to the employees. For instance, pension fund contributions by an employer.

G

GOING FEDERAL RATE

The interest rate the Federal government pays on the funds it borrows.

GOOD WILL

An intangible asset representing the reputation earned by the previous owner of the business among customers and the general public. The price paid for good will amounts to the difference between the purchase price and the value of the tangible assets purchased.

GROSS NATIONAL PRODUCT (GNP) PRICE DEFLATOR

Published by the U.S. Council of Economic Advisors, it indicates the changing purchasing power of the dollar from a given base year. The GNP price deflator measures the changes in prices of all goods nationally.

GROSS NATIONAL PRODUCT (GNP)

This measures the total amount of goods and services produced in any year. It is usually defined as:

$GNP = C+I+G+(X-M)$

Where,

C is Personal Consumption Expenditures, i.e., spending by consumers on goods and services.

I is Gross Private Domestic Investment by the business sector.

G is Government Purchases of Goods and Services Spending by the government for social goods and services-e.g., defense, etc.

X is Exports to foreign countries

M is Imports from foreign countries

Note:

Money GNP includes effect of Inflation.
Real GNP deflates for Inflation.

GROSS PROFIT

Sales minus the cost of goods sold

GUARANTEED LOANS

Loans made and secured by a private lender in which all or a part of the principal amount and interest is guaranteed (or insured). See also Insured Loans.

INDEMNITY PAYMENTS

Direct payments by the Agricultural Stabilization and Conservation Service to compensate farmers for product losses resulting from pesticide contamination that did not come about through the farmer's own actions.

INDIRECT COSTS

Part of the cross-impacts among economic areas. They are costs which do not result directly from a proposal, but from the changes which the proposal will bring about. For example, a new industry locating in a community may attract new population, thereby creating a number of indirect costs with their demands for additional housing, services, etc.

INFILLING

Locating new development in existing urban areas where most public services are already available or in service.

INFLATION

The diminishing purchasing power of the dollar due to a general increase in prices. Adjustments for inflation are made by using indexes such as the CPI or the GNP price deflator to reduce cost figures to "constant dollars" of a given base year where the dollar equals 100.

INPUT/OUTPUT ANALYSIS

A method for studying the relationships among industries to determine the overall effect on the economy of expansion or contraction in one industry.

INSTALLMENT LOANS

Loans made usually for a period from one to three years that are paid back in installments. Installment loans can be made for a wide range of business purposes and may be secured or unsecured.

INSURANCE

Liability — This type of insurance covers the expense and trouble resulting from damage suits brought against the business by customers and the general public.

Casualty — Insurance written to protect a business or individual from all types of losses other than the loss of life. These losses include: fire, burglary, plate glass destruction, liability and workmen's compensation.

INSURED LOANS

There tends to be some confusion about the difference between insured and guaranteed loans. In an insured loan, a government agency takes over the lender's liens in return for paying the lender principal and interest defaults. Thus, the lender avoids foreclosure action. In a guaranteed loan, a government agency agrees (in the case of default) to pay the lender for those losses that were guaranteed after the lender has liquidated any pledges or liens.

Nonetheless, the FmHA of the Department of Agriculture considers the loans it originates, makes, and services as insured loans; and those loans made and serviced by a private lender, but loss-limited by FmHA, as guaranteed loans.

INTEREST

An amount paid for the use of money borrowed, usually stated as a percentage of the amount borrowed.

Effective Rate — The rate arrived at when the total annual dollars of interest payments made according to the stated rate are translated into a percentage of the loan amount. For example, when the state of interest rate is five percent on the outstanding balance of a $1,200 loan paid back at the rate of $100 per month, then total annual interest payments will be $390 or 32.5 percent of the total loan amount.

Prime rate — The interest rate charged by the largest banks in the country to their top corporate customers for short-term loans.

INTERMEDIATE-TERM LOANS

In this manual, a loan with a maturity period of from one to five years. These are often called "term loans" and are usually secured by pledges of fixed assets. Sometimes these loans are paid back in installments over the life of the loan. Since the term loan may not mature for some years, the lender will pay particular attention to the prospects of the borrowing company and its industry, to its earning power, and, most important, to the capability of its management.

INVENTORY

The raw materials purchased by the business for use in producing the goods manufactured or the finished goods purchased by the business for sale to customers.

Beginning	The inventory on hand when the business opens or at the start of a given accounting period.
Ending	The inventory on hand at the close of a given accounting period.
In-Process	The goods owned by a business which are in the production process but are not year completed or produced.
Turnover	The number of times the inventory on hand at the beginning of a given accounting period must be replaced before the end of the period. Or, the annual cost of goods sold divided by the average inventory.

INVENTORY LIEN

Short-term loan using as collateral the borrower's entire inventory of raw materials and in-process and finished goods.

INVESTMENT SYNDICATE

A group of venture capitalists, each of whom invests a sum of money and takes some share of ownership. The purpose of the syndicate is to decrease the risk taken by each person involved and to handle investments that are larger than any one venture capitalist wants to make alone.

INVOICE

A bill showing the purchase price or amount owed for goods or services.

L

LABOR FORCE PARTICIPATION RATE

The percentage of total population, sixteen and over, that is part of the labor force.

LABOR OR PERSONNEL MARKET AREA

The geographic limits within which workers will travel from one point to another to work.

LAND AND PROPERTY MORTGAGES

Debt used for the purchase of land or buildings and secured by a mortgage on the land and buildings.

LAND AND SITE DEVELOPMENT LOANS

Loans obtained to acquire land and develop plant sites that may be secured by first or second mortgages.

LAYOUT

Merchandise — The plan, design or arrangement of merchandise.

Plant — The placement of men, machines, materials and the production tasks done by and on them in a manufacturing plant.

LEAPFROG DEVELOPMENT

The location of new development beyond the existing urban area, where public services are often not available.

LEASE FINANCING, EQUIPMENT

Equipment rental from a leasing company. Allows the small business to use capital equipment with little or no initial capital investment. Equipment owned by a company can sometimes be sold to a leasing company and then leased back.

LEASE GUARANTEES

Guaranteed payment of long-term rents of small business that seek space in commercial or industrial locations that would not otherwise rent to them.

LEASE/PURCHASE AGREEMENT

An agreement which gives the tenant or leasee of land, buildings and equipment the right to purchase these assets at some future date for some certain price. Under the agreement, lease payments may be credited to the purchase price if the leasee decides to buy.

LIENS

Claims or rights against property, resulting from an unpaid obligation to the seller.

LINE OF CREDIT

Short-term bank loans (less than one year, usually roll over every ninety days) that are used to fill temporary capital needs.

LOAN

Direct — A loan made by the SBA directly to the individual or business with no participation from a bank or other financial institution.

Guarantee — A guarantee by the SBA; or some other financial institution, that if a business defaults on payments to the lender, the SBA, or other guarantor, will make good on the balance of loan payments owed.

Immediate or Deferred Participation — Loans made in part directly by the SBA and in part by another financial institution - normally a bank. The SBA can make its part of the loan on an immediate or a deferred basis. Immediate means that the SBA disburses its part of the loan at the same time the bank disburses its part. Deferred means that the SBA disburses its part some certain time after the bank disburses its part.

LOCAL DEVELOPMENT CORPORATION (LDC)

An investment company formed by a group of twenty-five or more local citizens to help finance specific small businesses in a geographical area. LDCs can borrow up to $350,000 from the SBA or obtina SBA loan guarantees for up to that amount (or guarantee for up to 90 percent of a loan for less than $350,000) for each identifiable small business they want to aid. LDCs cannot make loans for working capital or refinancing.

LONG-TERM LOANS

As used herein, loans with final maturities of more than five years.

LOTS

The usual quantity in which goods are manufactured and/or sold. For instance, a truckload lot is enough to fill a truck.

M

MARGINAL COSTS

The incremental cost of one additional unit of a good produced.

MARK-DOWN

A reduction if the difference between what the owner of business pays for the goods he will sell and the price he charges customers to buy them.

MARK-UP

The difference between what the owner of a business pays for the goods he will sell and the price he charges customers to buy them.

MARKET

The geographical area of demand for products, goods and/or services.

Value — The price that property, merchandise or stock will sell for at a given moment of time in a given area.

Yield — The income or price paid in the market for securities divided by the face amount of the security.

MATURITY

The end of the time for which an obligation to pay exists. For example, if Mr. X receives a loan for five years in June, 1971, the loan will reach maturity in June, 1976.

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANY (MESBIC)

An investment company licensed by the SBA that is dedicated to providing equity and long-term debt to small businesses owned by socially or economically disadvantaged people. MESBICs are privately managed and may borrow up to three times their private equity.

MORTGAGE

A loan secured by real estate. The real estate is the collateral for the loan.

MULTIPLIER EFFECT

The total number of jobs resulting from the employment of one person in a basic industry. The multiplier may also apply to income or dollars sales.

N

NEAR-EQUITY

Subordinated debt, convertible debt, debt with warrants or preferred stock invested in a new or young business. Because of the subordinated nature of these instruments, it is unlikely that their claim on the business could be met in the event of its liquidation. Therefore, the risk upon liquidation is much the same for those holding such claims as it would be for holders of common stock; hence the name near-equity.

NET INCOME OR PROFIT

The dollar amount excess of gross profit over total expenses for a given time period.

NET WORTH

The value of the owner's interest in the business. Basically, the amount by which assets exceed liabilities. It is possible to have a negative net worth when liabilities exceed assets.

NOTES

Payable — A debt owed by the business to a credit which is evidenced by the debtor's written IOU and is not secured by an collateral.

Promissory — A written promise to pay on demand or at a fixed future time, a set sum of money to a specified person.

O

OPPORTUNITY COSTS

The costs of foregone opportunities. Since resources are limited, the choice to produce one type of good means a choice to forego using those resources for the production of other goods.

OPTION

The purchases right to buy property at a specified price during a specified period of time. For example, Mr. X pays Mr. Y $1,000 for the right to buy Mr. Y's machine for $100 at any time during the next 30 days. Because Mr. X has purchased the option on Mr. Y's machine, Mr. Y cannot sell it to anyone else for 30 days and he must sell it to Mr. X at any time during the 30 days if Mr. X pays him the $100.

OVERHEAD

Costs incurred in the manufacture or sale of merchandise. These costs include indirect labor, rent, utilities, insurance, office supplies and the like. These costs do not include the salaries of production or sales personnel or other direct costs of production or sales.

P

PARTNERSHIP

A legal entity formed by two or more persons to do business. The partners must invest assets in or contribute services to the entity and must share in both the profits and losses from the business.

PER CAPITA INCOME

Derived by dividing total personal income received by an area during a year by an area's mid-year population.

PERSONAL INCOME

As defined by U.S. Bureau of Economic Analysis, it is the current income received by residents of an area from all sources. It is measured before deduction of income and other personal taxes, but after deduction of income and other personal taxes, but after deduction of personal contributions to social security, government retirement, and other social insurance programs. It includes income received by persons from business; federal, state and local governments; households and institutions, and foreign countries.

PHYSICAL DISASTER LOANS

SBA loans to help small businesses recover from the effects of physical disaster (floods, etc.) or from an inability to market a product because of disease or toxicity resulting from natural or undetermined causes.

PIECE WORK/RATE OF PAY

Wages which are directly tied to the productivity of the worker. For instance, for every five shirts sewed, the stitcher receives $X.

PLANT IMPROVEMENT LOANS

Loans made to finance improvements on business properties and plants. They are intermediate or long-term and generally secured by a first mortgage on the same property.

PREFERRED STOCK

A class of stock that has rights and claims ahead of common stock. Such right or claim could entail a prior claim on assets in the event of liquidation, a designated position with regard to earnings and dividends, or both of these.

PREPAID ITEMS

An expense paid in advance, the payment for which will be applied to a future debt. For instance, Mr. X pays Mr. Y three months rent in advance. The payment makes three months rent a prepaid expense.

PRICE SUPPORT LOANS

Loans designed to provide farmers a fair cash return on certain eligible commodities used as collateral. Loans are nonrecourse; that is, the loan is paid by the delivery of the commodity that was used as collateral, or by repayment of the loan principal plus interest. The farmer is not required to make good on any decline in the market value of the collateral.

PRICE SUPPORT PAYMENTS

Direct payments to farmers to provide them with a fair cash return on their commodities when prices for those commodities fall below a specified "support" level.

PRINCIPAL

The actual dollar amount of an investment or a loan as opposed to what the investment earns or the interest charged on the loan.

PROCUREMENT

The purchase of goods or services on a contract basis by government or private concerns.

PRODUCTION CREDIT

Farm loans for seasonal production purposes such as the purchase of seed, feed, fertilizer, and other current farm expenses.. These loans generally mature within a year and may be unsecured or secured. Security may consist of a first lien on crops or the best liens obtainable on other items.

PROMOTION

The process of launching a new business by working to secure customers or selling stock or securities to obtain necessary capital.

PURCHASE AND SALE AGREEMENT

A legal agreement between a buyer and seller detailing all of the specific terms under which the buyer will buy and the seller will sell. The terms include a description of what is being sold, price, time at which the sale will take place, and method of payment.

R

REAL ESTATE MORTGAGES

Long-term mortgage loans that provide a way of obtaining a substantial loan (up to 75 percent of the property value) for a term of fifteen to thirty years.

RECREATION FACILITY LOANS

Loans obtained for the purpose of financing the conversion of all or part of a farm to income-producing outdoor recreation enterprises. These loans are secured by a farm mortgage or the pledge of equipment and livestock.

REPLACEMENT VALUE

The dollar value determined by an appraiser for the cost of replacing existing property, facilities or equipment with similar property, facilities or equipment. Replacing can mean purchasing or constructing.

RESTRICTIVE COVENANTS

Financing arrangement agreements whereby the borrower promises to refrain from doing certain things such as paying out in dividends more than a specified portion of income.

RETAIL BUSINESS

A business in which the owner buys products or goods from a wholesaler and sells them to customers who make personal use of what they buy rather than reselling.

RETAINER

Money paid to purchase the on-call services of a professional for a fixed period of time.

S

SECOND STAGE PROJECTS Venture capital financing

A potential investment which is one to three years old, and either is about to reach break-even or is projecting profits within one year.

SECURITY

A written document such as a stock or bond which is purchased as an investment by the stockholder or owner of the bond. Also, the collateral for a loan.

SECURITY INTEREST

An interest in property securing or guaranteeing a debt.

SEED CAPITAL

Equity money supplied to help a company get off the ground. The money is almost always supplied by an entrepreneur and his/her family, friends, and relatives. (At this early stage, it is quite difficult to obtain equity from a venture capitalist).

SERVICE BUSINESS

A business which sells services to its customers rather than products or goods. For example, a janitorial/maintenance company or beauty parlor.

SHORT-TERM LOANS

Borrowed funds to be repaid in less than one year. The loans can be made on a secured or unsecured basis.

SINGLE PAYMENT NOTES

Agreement used for most production credit loans. Payment is tied to the agricultural cycle and the sale of crops, dairy products, or livestock.

SMALL BUSINESS

The SBA defines a small business as one that meets these general size standards:

- Wholesale-annual sales from $5 million to $15 million, depending on the industry.
- Retail or service - annual sales or receipts from $1 million to $5 million, depending on the industry.
- Construction - annual sales or receipts of not more than $5 million average over a three-year period; and
- Manufacturing - from 250 to 1,500 employees, depending on the industry.

SMALL BUSINESS INVESTMENT COMPANY (SBIC)

An investment company licensed by the SBA that provides equity capital and long-term debt (more than five years) to small businesses. SBICs are capitalized with private equity money and are privately managed. They may borrow up to three times their private equity from the SBA.

SOLE OR SINGLE PROPRIETORSHIP

A business that is owned by one person who have the exclusive right to all profits and exclusive responsibility to absorb all losses.

SPECIAL LOANS FOR THE DISADVANTAGED

Secured short-, intermediate-, or long-term loans to finance working capital, equipment, plant conversion, construction, or expansion. These loans are SBA guaranteed and are available to minority businessmen.

SPECIFICATION

An accurate and complete description of goods to be manufactured, construction work to be done, or services to be performed. Specifications include physical, chemical and performance requirements. Failure to meet the specifications included in a contract entitles the buyer not to pay or to end the contract.

STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES

Established by the U.S. Office of Management and Budget (OMB) SIC Codes provide a numeric system of classifying employment establishments by type of activity. The SIC Code divides the nation's economic activities into ten broad industrial divisions identified by the first digits, with more detailed breakdowns of two, three, and four digits.

STANDARD METROPOLITAN STATISTICAL AREAS

Except in New England States, a standard metropolitan statistical area is a county or group of contiguous counties which contains at least one city of 50,000 inhabitants or more, or "twin cities" with a combined population of at least 50,000. In addition to the county or counties containing such a city or cities, contiguous counties are included in an SMSA if, according to certain criteria, they are socially and economically integrated with the central city. In the New England States, SMSAs consist of towns and cities instead of counties. In recent years, four cities (High Point, N.C., Macon, Ga., Oklahoma City, Okla., and Sioux Falls, S. Dak.) have annexed territory which lies outside the boundaries of the SMSA. Each SMSA must include at least one central city, and the complete title of an SMSA identifies the central city or cities.

START-UPS "Seed deals" (Venture Capital Financing)

These are businesses that are still in the idea stage, or in the process of being organized. Some have a prototype of their products, and most have prepared a business plan and chosen the key officers.

STOCK

Capital — The initial securities issued and sold by the corporation to raise the capital funds necessary to start the business.

Common Voting — Stock issued by a corporation which entitles the owner to share in the net worth of the corporation, to vote in the corporation elections, and which may entitle the owner to a share in the profits of the corporation.

Preferred — Stock issued by a corporation entitling the owner to a preferential share in the profits of the corporation and in the assets of the corporation if it is dissolved. This stock may entitle the owner to vote in certain corporation elections.

SUBORDINATION

Taking a less than preferred security position or interest for money loaned. For instance, a second mortgage or deed of trust. If the mortgage is foreclosed, then the proceeds from the sales property will go to satisfy the debt to the first mortgage holder first and whatever is left over will go to satisfy the debt to the second mortgage holder.

SUBORDINATED DEBENTURE

A credit instrument guaranteed by a security interest subordinated to another security interest.

T

TAX ASSESSMENT VALUE

The value at which property is appraised for tax purposes.

TERM LOANS

Bank loans generally made for periods of from on to five years and requiring periodic repayment. The loan agreements are designed to fit the particular needs of each borrower.

TERMINATION CONDITIONS

The conditions under which either the landlord or the tenant, the lessor or the lessee, can break the lease without becoming liable.

THIRD STAGE PROJECTS (Venture capital financing)

In venture capital circles, this is usually the last round of private financing; further financing is normally by public offering. At this stage, the company to be invested in is most likely profitable.

TIME SALES FINANCING

The purchase of installment receivables at a discount by a commercial finance company which assumes responsibility for their collection.

TRADE CREDIT

The form of credit most widely used by firms. One firm buys goods or services from a supplier and is given thirty days, sixty days, or some other specified time period in which to pay the bill.

TOTAL LABOR FORCE

As defined by the U.S. Department of Labor, it includes all working-age civilians classified as employed or unemployed as well as all members of the Armed Forces both in the United States and abroad.

TRADE AREA

The geographic area from which a business draws its customers or in which the customers of the business are located.

TRANSFER PAYMENTS

As defined by BEA, they are receipts from government and business for which no service is rendered currently: pensions, unemployment benefits, disability benefits, medicare benefits, direct relief, bad debts absorbed by business establishments, corporate gifts to private, non-profit institutions, etc.

U

UNDEREMPLOYMENT

Includes all persons whose skills, education or training qualifies them for a higher skilled or better paying job than they presently hold. It also includes persons only able to find part-time rather than full-time work in their fields.

UNEMPLOYED PERSONS

As defined by the U. S. Department of Labor, the term includes all civilians who were not employed but were available and actively seeking work within the past four weeks, were waiting to be called back to a job from which they had been laid off, or were waiting to report to a new job scheduled to begin within 30 days.

V

VENTURE CAPITAL

Money that is used to purchase equity (shares of common stock) or debt securities with equity features (subordinated debentures convertible into common stock, or junior notes with warrants to purchase common stock) from young, unseasoned companies. Although these companies are often not making a profit when the investment is made, the expectation is that a significant profit can be made within the next three to five years.

W

WAREHOUSE RECEIPT LOANS

Bank loans made on the pledge of goods or commodities that are placed or can be placed in a recognized commercial warehouse.

WARRANTS

Long-term options to buy a stated number of shares of common stock at a specified price (called the "exercise price").

WHOLESALER

A business which sells products or goods in large quantities usually to retail businesses for resale.

WORKING-CAPITAL LOANS, SECURED

Loans for such operating needs as inventory, cash-on-hand, supplies, taxes, wages, and other expenses. These loans are secured by pledge of equipment and/or property.

Z

ZONING

Local government laws governing land use.

APPENDIX B

FEDERAL PROGRAMS FOR COMMUNITY ECONOMIC DEVELOPMENT

This appendix presents federal programs, classified alphabetically and by a functional index, which CDOs can utilize for community economic development. This list of programs should not be considered exhaustive.

The Catalog of Federal Domestic Assistance provides more detail on each program.

The information in this chart was provided by the Office of Neighborhood Development, under Assistant Secretary Geno Baroni at HUD. Carol Ohlrogge volunteered her time and organized the classification scheme.

A more complete listing of neighborhood-oriented federal programs may be obtained by writing to:

Neighborhood Information Division
Office of Neighborhood Development
Room 3174
HUD
Washington, D.C. 20410

CROSS REFERENCED BY ALPHABETICAL LISTING OF PROGRAMS

Program Title	Category
Amtrack Improvement Act Program	Historical Preservation
Appalachian Regional Development Program	General Economic Development
Architectural Planning and Design Program	Arts and Culture
Arts Centers and Festivals	Arts and Culture
Business and Industrial Loans	Business Development
Business Development Loans	Business Development
Community Action Program	Social Services
Community Anti-Crime Program	Social Services
Community Conservation Research	Housing
Community Development Block Grants	General Economic Development
Community Economic Development Program	General Economic Development
Community Food and Nutrition Program	Health
Community Health Centers	Health
Community Health Services	Health
Community Relations Service	Social Services
Community Resource Development Program	General Economic Development

Program Title	Category
Comprehensive Employment Training Act	Employment, Labor & Job Training
Consumer and Regulatory Functions	Volunteer
Energy and Weatherization Program	Housing
Expansion Arts Program	Arts and Culture
Foster Grandparent Program	Volunteer
Head Start	Social Services
Historic American Building Survey	Historical Preservation
Historic American Engineering Record	Historical Preservation
Historic Preservation Challenge Grant Awards	Historical Preservation
Historic Preservation Grants-In-Aid Program	Historical Preservation
Housing Consumer Services	Housing
Land and Water Conservation Fund	Recreation
Learning Through the Arts	Arts and Culture
Livable Cities	Arts and Culture
Minority Bank Deposit Program	Business Development
Minority Business Development Program	Business Development
National Consumer Cooperative Bank	Business Development
National Register of Historic Places	Historical Preservation
National Theme Awards Program	Arts and Culture

Program Title	Category
Natural Helping Networks and Service Delivery	Social Services
Neighborhood Housing Services Program	Housing
Neighborhood Preservation Devel-opment	Housing
Neighborhood Preservation Project	Housing
Neighborhood Self-Help and Development	Housing
Neighborhood Strategy Area Program	General Economic Develop-ment
OHDS Transportation Demonstra-tion Program	Transportation
Planning Grants for Economic Development	General Economic Develop-ment
Public Works & Development Facilities — Long Term Employ-ment Program	Employment, Labor and Job Training
Public Works Impact Program	Public Works
Retired Senior Volunteer Program	Volunteer
Reading Academy	Education
Science for Citizens	Social Services
Science for Citizens: Public Service Science Residencies	Social Services
Section 312 Housing Rehabilita-tion Program	Housing
Senior Companions Program	Employment, Labor and Job Training
Senior Opportunities and Services	Social Services

Program Title	Category
Small Business Administration Loan Program	Business Development
Special Projects Program	Business Development
Surplus Federal Real Property for Parks and Recreation Program	Recreation
Tax Incentive for Rehabilitation	Historical Preservation
Technical Assistance Grants	General Economic Development
Technical Assistance Program	General Economic Development
Title 1 ESEA (Elementary and Secondary Education Act), Conservation Provision	Education
Urban Development Action Grants	General Economic Development
Urban Homesteading Program	Housing
Urban Park and Recreation Recovery Program	Recreation
Volunteers in Service to America	Volunteer
Work Incentive Program and Incentives	Employment, Labor and Job Training
Works of Art in Public Places	Arts and Culture
YACC	Employment, Labor and Job Training
Youth Community Conservation Improvements Project	Employment, Labor and Job Training
Youth Conservation Corps	Employment, Labor and Job Training
Youth Employment and Training Program	Employment, Labor and Job Training

ARTS AND CULTURE

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
ARTS CENTERS AND FESTIVALS Provides matching grants to arts centers and festivals to explore various methods of assistance to community groups of organizations which (perform the presentation function.)	National Endowment for the Arts	Director, Office of Special Projects National Endowment for the Arts 2401 E. St., NW Washington, D.C. 20506 202-634-6020	28	$550,000
LEARNING THROUGH THE ARTS Matching grants are made available to community groups for programs designed to involve people of all ages in artistic activities beyond the traditional school enivronment.	National Endowment for the Arts	Administrator, Education Program National Endowment for the Arts 2401 E. St., NW Washington, D.C., 20506 202-634-6361	10	$200,000
NATIONAL THEME AWARDS PROGRAM Gives grants to nonprofit organizations, individuals and state and local governments for planning and organizing projects and programs in the field of architecture and design. Projects must relate to the conservation and enhancement of a community's unique character.	National Endowment for the Arts	Architecture and Environmental Arts National Endowment for the Arts Washington, D.C. 20506		
EXPANSION ARTS PROGRAM Assists urban, suburban and rural community arts organizations with proven professional direction, for activities such as the production of original works of art, development of new art forms, and cross cultural exchange.	National Endowment For the Arts	Director, Expansion Arts Program National Endowment for the Arts 2401 E St., NW Washington, D.C. 20506 202-634-6010	624	$7 million

ARTS AND CULTURE

Program Description	Agency	Contact	No. of Project (Grants)	1979 Budget Appropriations
LIVABLE CITIES Designed to develop and preserve artistic, cultural and historic resources in urban areas. Funds will be used to promote creative ways of shaping one's community, in order to demonstrate the "exhilarating effect that good design and planning can have on community cohesion and spirit".	National Endowment for the Arts	Director, Office of Architectural Planning and Design National Endowment for the Arts 2401 E Street, NW Washington, D.C. 20506 202-634-4276	60	$5 million (authorized)
ARCHITECTURAL PLANNING AND DESIGN PROGRAM Provides Design Project Fellowships (100% grant) to individual designers for self development projects which may include projects of use to the community. Also provides Design and Communication Grants (50% grant) to nonprofit groups (among others) to fund projects communicating the benefits of architectural conservation and design.	National Endowment for the Arts	Architectural Planning and Design Program National Endowment for the Arts Washington, D.C. 20506 202-634-4276	275	$3 million
WORKS OF ART IN PUBLIC PLACES Provides for contemporary works of art to be exhibited in public places outside museum walls.	National Endowment for the Arts	Visual Arts Program National Endowment for the Arts 2401 E St., NW Washington, D.C. 20506 202-634-1566	40 grants	$700,000

BUSINESS DEVELOPMENT

Program Description	Agency	Contact	No. of Project (Grants)	1979 Budget Appropriations
SMALL BUSINESS ADMINISTRATION LOAN PROGRAM Guarantees bank loans and/or direct loans under SBA's 502 (Local Development Corporations) and 7a (regular business loans) given to assist small businesses in creating and maintaining jobs, provide necessary neighborhood business and professional services, and reinforce community stability and economic health.	Small Business Administration	Director, Office of Neighborhood Business Revitalization Small Business Administration 1441 L Street, N.W. Washington, D.C. 20416 202-653-6375	– – –	$265 million in direct funds $3.3 billion in loan guarantees

BUSINESS DEVELOPMENT

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
BUSINESS AND INDUSTRIAL LOANS Provides loans to any legal entity, including non-profit organizations and local governments, to support development or expansion of business, industry or other sources of employment. Loans can be applied to the acquisition and development of land and/or existing facilities within rural areas or cities with less than 50,000 population.	Department of Agriculture	County Office of the Farmers Home Administration Department of Agriculture Washington, D.C. 20250 202-447-4323	1,213 Loans	$1.1 Billion for loans
BUSINESS DEVELOPMENT LOANS Provides long-term low-interest loans or loan guarantees to approved local development groups, individuals or State and local governments to help establish new businesses or expand existing firms in designated economic development centers.	Department of Commerce	Assistant Secretary for Economic Development Economic Development Administration Department of Commerce Washington, D.C. 20236 202-377-5113	191	$89.7 million
SPECIAL PROJECTS PROGRAM Provides assistance to neighborhood-based organizations in designated areas for facility construction, business loan feasibility studies, and loans and guarantees. It also provides technical assistance funds to promote institution building at the local level in concert with local government plans. Also helps local groups develop proposals for other Economic Development Administration programs.	Economic Development Administration Department of Commerce	Office of Special Projects Economic Development Administration Dept. of Commerce 14th & E Sts., N.W. Washington, D.C. 20230 202-377-5751	70 grants (approximately)	$50 million
MINORITY BANK DEPOSIT PROGRAM Designed to increase federal government and private sector deposits in minority banks.	Department of Treasury	Banking Staff Bureau of Government Financial Operations Room 204, Annex 1 Dept. of Treasury Washington, D.C. 20226 202-566-8487	— — —	Staff Services

BUSINESS DEVELOPMENT

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
MINORITY BUSINESS DEVELOPMENT PROGRAM Designed to start and expand minority businesses in the United States. Organizations are funded currently to provide technical assistance to more than 22,000 minority firms, the majority of which are in cities.	Department of Commerce	Office of Minority Business Enterprise Dept. of Commerce 14th and Constitution Ave., N.W. Washington, D.C. 20230 202-377-3024	22,000 firms	
NATIONAL CONSUMER COOPERATIVE BANK Provides credit, equity, and technical assistance to consumer cooperatives. The Bank has received $300 million in start-up funds from the Treasury and is authorized to raise 10 times that amount through the sale of bonds and other obligations. The funds will be lent to non-profit cooperatives that experience difficulty in obtaining credit from traditional sources.	Chaired by Treasury Department	Cathy Dexter or John Cummerford HUD		undetermined

EDUCATION

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
READING ACADEMY Provides grants and technical assistance to nonprofit community organizations, universities and state and local educational agencies. Aimed at mobilizing additional public and private resources for the purpose of improving reading instruction of 16-18 years old youth and adults who would not otherwise receive such training.	Department of Health Education & Welfare	Director, National Right to Read Office Office of Education Department of HEW 400 Maryland Avenue SW Washington, D.C. 20202	66	$5.3 million
TITLE I ESEA (ELEMENTARY AND SECONDARY EDUCATION ACT), CONCENTRATION PROVISION Concentration provision provides funds for children of school districts with a higher than normal number of low income families. Funds are allocated on a county basis to local school districts, state agencies, state education agencies, and state administrations.	Department of Health Education & Welfare	Local School District or state department of education	— — —	(undetermined)

EMPLOYMENT, LABOR AND JOB TRAINING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
YOUTH EMPLOYMENT AND TRAINING PROGRAM Provides job experience, training, occupational information and supportive services to youths 14-21 years of age.	Employment & Training Administration (Dept. of Labor)	Chief, Division of Program Review and Training Administration Dept. of Labor 601 D St., NW Washington, D.C. 20210 202-376-6704	— — —	$381 million
PUBLIC WORKS & DEVELOPMENT FACILITIES — LONG TERM EMPLOYMENT PROGRAM Provides direct grants to public and private nonprofit organizations and state and local governments for public works projects intended to improve opportunities for new or expanding business or industry, or otherwise assist in job creation for the unemployed or underemployed.	Department of Commerce	Assistant Secretary for Economic Development Economic Development Administration Dept. of Commerce Washington, D.C. 20236 202-377-5113	— — —	$228.5 million
YOUTH COMMUNITY CONSERVATION IMPROVEMENTS PROJECT Provides discretionary funds to employ 16-19 year olds in projects benefitting the community and makes grants to prime sponsors who in turn allocate money to projects in communities.	Employment & Training Administration (Dept. of Labor)	Chief, Dir. of Program Review and Analysis Employment and Training Administration Dept. of Labor 601 D St., NW Washington, DC 20210 202-376-6704	— — —	$81.9 million (project suspended) a one-year trial program.
YOUTH CONSERVATION CORPS Provides summer employment for youth in conservation projects on federal or other public land. Funds projects operated directly by agencies of the Departments of Interior and Agriculture, or operated by nonprofit organizations on a contractual basis with state governments which have received grants under the program. Nonprofit organizations must have been in existence for 5 years.	Department of the Interior	Director, Office of Manpower Training & Youth Activities Department of the Interior Washington, DC 20246 202-343-8086	— — —	$60 million

EMPLOYMENT, LABOR AND JOB TRAINING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
COMPREHENSIVE EMPLOYMENT TRAINING ACT Under CETA Title II and VI, local governments (the prime sponsors) receive block grants to operate job training, job creation & other programs for unemployed disadvantaged persons. Neighborhood based and other organizations act as subgrantees to prime sponsors, to operate training and job development programs, or to receive funds for the creation of public service jobs that benefit neighborhoods.	Employment & Training Administration (Dept. of Labor)	Assistant Secretary for Employment & Training Dept. of Labor, Room South-2203 200 Constitution Ave., NW Washington, D.C. 20210 202-523-6050	460 state and local prime sponsors	$10 billion
SENIOR COMPANIONS PROGRAM Provides opportunities for low income older persons to serve as companions to other adults confined to their homes and in nursing homes or institutions, and provides the companions with a stipend to supplement their incomes.	ACTION	Director, Older Americans Volunteer Program — ACTION 806 Connecticut Ave., NW Washington, DC 20525 202-254-7310 (local DC area) 800-424-8580 (toll free number for outside DC area)	58	$7 million
WORK INCENTIVE PROGRAM AND INCENTIVES Aimed at moving adults and out of school youth from the aid to families with dependent children program into meaningful, permanent productive employment through appropriate training, social services, job placement and other service. State employment service agencies are prime grantees but they may issue contracts for the provision of day care, family planning, homemaking and other services.	Department of Labor	Local office of the state employment service or Director, Office of Work Incentive Programs Manpower Administration Department of Labor Washington, D.C. 20213 202-376-6694		

EMPLOYMENT, LABOR AND JOB TRAINING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
YACC Provides year round jobs for unemployed and out-of-school young adults ages 16-23 in conservation work on federal and other public lands. Jointly administered by the Departments of Labor, Agriculture & Interior, 30% of the funds are granted to the states, whose governors may subgrant to private nonprofit organizations to conduct YACC projects.	Department of Interior	Program Agent or Director Office of Manpower Training & Youth Activities Dept. of the Interior Washington, D.C. 20246 202-343-4148		

GENERAL ECONOMIC DEVELOPMENT

Program Description				
COMMUNITY DEVELOPMENT BLOCK GRANTS Allocated to State's local government to fund a wide range of community development activities. Priorities are determined by the localities. Many neighborhood projects have been funded and, as of 1977, block grants can be made available to private nonprofit entities, neighborhood based nonprofit groups, local development corporations, and small business investment companies.	Department of Housing & Urban Development	Community Development area or HUD Area Office Director	1,302 grants to localities	$3.6 billion
URBAN DEVELOPMENT ACTION GRANTS Provides grants to encourage reinvestment in severely distressed cities and urban counties in order to revitalize local economies and reclaim deteriorated neighborhoods. Neighborhood projects are funded under this program through the cities. Two national technical assistance grants will be awarded to increase the capacities of neighborhoods.	Department of HUD	Community Development Area or HUD Area Office	320	$400 million

GENERAL ECONOMIC DEVELOPMENT

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
NEIGHBORHOOD STRATEGY AREA PROGRAM Targets *Section 8* substantial rehabilitation funds to neighborhoods chosen by local governments for comprehensive revitalization.	Department of HUD	Director, Rehabilitation Division HUD, Room 6260 451 7th St., SW Washington, DC 20410 202-755-5837	21,000	$89 million
COMMUNITY ECONOMIC DEVELOPMENT PROGRAM Provides venture capital, funds for administrative costs, to Community Development Corporations, which are for profit and non-profit private corporations formed by representatives of disadvantaged communities to engage in community business development.	Community Services. Administration	Chief Administrative Services Division Office of Economic Development Community Services Administration 1200 19th St., NW Washington, DC 20506 202-254-6180	40 CDCs	$48 million
PLANNING GRANTS FOR ECONOMIC DEVELOPMENT Provides direct grants covering administrative expenses for the planning organizations of EDA-designated economic development districts redevelopment areas and State agencies. Such organizations can use such funds to furnish technical assistance to community groups as well as to prepare area-wide economic development plans and specific economic development projects.	Department of Commerce	Assistant Secretary for Economic Development Economic Development Administration Department of Commerce Washington, D.C. 20236	338	$38.2 million
TECHNICAL ASSISTANCE PROGRAM Furnishes services and grants to assist in the economic development planning of non-profit organizations, individuals and state and local governments. Planning assistance may include resource surveys, feasibility studies, design plans, management and operations consultation, and the identification and planning of specific economic development projects. Not limited to specially designated areas as are most EDA programs.	Department of Commerce	Assistant Secretary for Economic Development Economic Development Administration Department of Commerce Washington, D.C. 20236 202-377-5113	231	$34.5 million

GENERAL ECONOMIC DEVELOPMENT

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
APPALACHIAN REGIONAL DEVELOPMENT PROGRAM Open to nonprofit, limited dividend, cooperative or public corporations in the 13 member states of the Appalachian Regional Commission, the program seeks to stimulate housing, and economic and community development. It provides technical assistance, non-matching grants to match funds from other government programs, research and demonstration grants and project planning loans.	Appalachian Regional Commission	Appalachian Regional State Office of Director, Appalachian Regional Commission 1666 Connecticut Avenue NW Washington, D.C. 20235 202-673-7845		
COMMUNITY RESOURCE DEVELOPMENT PROGRAM Provides for technical and planning assistance to local governments and community groups to carry out such projects as surveys to identify community needs, educational programs, organizing of development corporations and other commercial development projects. Extension Agents are assigned by the State land grant universities in response to community requests.	Department of Agriculture	Director of Cooperative Extension at the State land grant universities or County or district office of the Cooperative Extension Service or Federal Extension Ser. Room 5044 Department of Agriculture Washington, D.C. 20250 202-447-6283		
TECHNICAL ASSISTANCE GRANTS Gives grants to public and private nonprofit organizations and State and local governments to finance planning activities related to economic development (including research, feasibility studies, and other analyses and demonstration and training programs).	Department of Commerce	Director of Regional Economic Coordination Department of Commerce Washington, D.C. 20230		

HEALTH

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
COMMUNITY HEALTH CENTERS Program will provide an additional $50 million to improve the health care of inner city residents in selected cities across the country.	Department of Health Education & Welfare			
COMMUNITY FOOD AND NUTRITION PROGRAM Program educates communities across the country about food resources available to them, with emphasis on the school breakfast program.	Community Services Administration	Chief, Community Food & Nutrition Program Community Services Admin. 1200 19th St., NW Washington, D.C. 20506 202-632-6694 or Regional Office	600	$30 million
COMMUNITY HEALTH SERVICES Seeks to provide quality, comprehensive health care to people in areas lacking health and medical services by establishing urban and rural primary health care centers.	Health Services Administration (Dept. of Health, Education & Welfare)	Director — Bureau of Community Health Services Health Services Admin., Room 705 5600 Fishers Lane Rockville, MD 20857 202-443-2320 or HEW Area Office	157 Community Health Centers	$1.1 million

HISTORICAL PRESERVATION

Program Description				
HISTORIC PRESERVATION GRANTS-IN-AID PROGRAM Provides matching grants-in-aid to states and territories for the acquisition, development, protection and preservation of properties listed in the National Register of Historic Places. Grants can support a wide variety of organizational activies.	Heritage Conservation & Recreation Service (Dept. of Interior)	Office of Archeology and Historic Preservation Heritage Conservation and Recreation Ser. Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444	1,200	$60 million

HISTORICAL PRESERVATION

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
HISTORIC PRESERVATION CHALLENGE GRANT AWARDS An adjunct to the Historic Preservation Grants-in-Aid program, this program furnishes matching funds (minimum of 50% from other sources) to support innovative projects and studies that serve as models of historic preservation elsewhere. Applications are received by and funds disbursed through the State historic preservation offices.	Department of the Interior	Technical Preservation Services Division Heritage Conservation & Recreation Service Pension Building 440 G Street NW Washington, D.C. 20243 202-343-7217	8-10 grants	$1 million
AMTRACK IMPROVEMENT ACT PROGRAM Awards matching grants for converting railroad stations of historic and architectural significance into intermodal terminals and for adopting the stations for non-transportation purposes. Funding is on a 60-40 matching basis and is provided to private organizations as well as State and local governments.	Department of Transportation	Office of Administrator Federal Railroad Admin. Department of Transportation Washington, D.C. 20590 202-426-1677		
HISTORIC AMERICAN BUILDING SURVEY Identifies, surveys, measures, and photographs historic buildings (particularly those threatened with demolition) to document their architectural character and construction.	Heritage Conservation & Recreation Service (Dept. of Interior)	Office of Archeology and Historic Preservation Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444	---	Staff Service

HISTORICAL PRESERVATION

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
HISTORIC AMERICAN ENGINEERING RECORD Provides research and technical assistance related to urban revitalization, neighborhood conservation, minority and disadvantaged displacement, urban recreation and energy conservation, in areas or buildings designated as Historical properties.	Heritage Conservation & Recreation Service (Dept. of Interior)	Office of Archeology & Historic Preservation Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444	— — —	Staff Service
NATIONAL REGISTER OF HISTORIC PLACES Designates historic properties or urban neighborhoods eligible for federal and state historic preservation grants.	Heritage Conservation & Recreation Service (Dept. of Interior)	Office of Archeology & Historic Preservation Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444	— — —	Staff Service
TAX INCENTIVES FOR REHABILITATION	Heritage Conservation & Recreation Service	Regional Office Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444		

HOUSING

Program Description				
SECTION 312 HOUSING REHABILITATION PROGRAM Provides funds to expand the single-and multi-family housing rehabilitation program and strengthen the urban homesteading program.	Department of HUD	Community Development Area Director or HUD Area Office	— — —	$230 million

HOUSING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
URBAN HOMESTEADING PROGRAM Transfers vacant HUD-held properties to local governments which "sell" homes for token sums to homesteader families.	Department of HUD	Community Development Area Director or HUD Area Office	39 communities/ cities	$20 million
NEIGHBORHOOD SELF--HELP AND DEVELOPMENT Provides assistance to neighborhood and voluntary organizations for specific housing and neighborhood revitalization projects.	Department of HUD	Director, Neighborhood Relations Division HUD, Room 3174 451 7th St., SW Washington, D.C. 20410 202-755-7940	21	$15 million (authorized)
NEIGHBORHOOD HOUSING SERVICES PROGRAM This program is designed to reverse neighborhood decline by promoting reinvestment in neighborhoods. Each NHS program has a working partnership or neighborhood residents, representatives of local financial institutions, and local government.	National Neighborhood Reinvestment Corp. (formerly Urban Reinvestment Task Force)	Neighborhood Housing Services Program National Neighborhood Reinvestment Corp. 1120 19th St., NW Washington, D.C. 20036 202-634-1905	93	$8.5 million
NEIGHBORHOOD PRESERVATION DEVELOPMENT Replicates particularly successful strategies such as improving apartment buildings, increasing homeownership, and bringing neighborhood conservation tools to small cities. Trial replications are taking place in one city and will eventually expand to a large number of cities.	National Neighborhood Reinvestment Corp. (formerly Urban Reinvestment Task Force)	Neighborhood Preservation Development National Neighborhood Reinvestment Corp. 1120 19th St., NW Washington, D.C. 20036 202-377-6381	5	$8.5 million

HOUSING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
NEIGHBORHOOD PRESERVATION PROJECT Identifies and assists promising neighborhood preservation strategies which will supplement Neighborhood Housing Services efforts. These locally-created programs involve partnerships of financial institutions, community residents, and local government representatives in an effort to restore confidence in the neighborhood.	National Neighborhood Reinvestment Corp. (formerly Urban Reinvestment Task Force)	Neighborhood Preservation Program National Neighborhood Reinvestment Corp. 1120 19th St., NW Washington, D.C. 20036 202-377-6381	27	$8.5 million
COMMUNITY CONSERVATION RESEARCH Conducts demonstrations and research projects in converting abandoned multi-family buildings in blighted neighborhoods to sound housing, through the labor of previously unemployed community residents.	Department of HUD	Director, Division of Community Conservation Research HUD, Room 8146 451 7th St., SW Washington, D.C. 20410 202-755-7335	1	$3 million (approximately)
ENERGY AND WEATHERIZATION PROGRAM Through the network of Community Action Agencies, winterizes homes for proverty level households, using cooperatively purchased materials, CETA workers, job trainees, and labor from other Federal programs.	Community Services Administration	CSA Regional Office	900 community action agencies	(undetermined)

HOUSING

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
HOUSING CONSUMER SERVICES Works through more than 550 HUD-approved counseling agencies, to offer information, skills, and advice to housing consumers who use HUD rental and home-ownership programs and provides grants to fund services for 200 counseling agencies. Also furnishes assistance to local management of public and HUD-assisted housing, to improve community services for tenants, such as employment, recreation for the elderly, youth and children, tenant organizations and employment, and tenant and community services. Coordinates related programs with other Federal agencies.	Department of HUD	Director, Housing Consumer Programs Div. HUD, Room 3248 451 7th St., SW Washington, D.C. 20410 202-755-6893	585 counseling	– – –

PUBLIC WORKS

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
PUBLIC WORKS IMPACT PROGRAM Awards direct grants to State and local governments and nonprofit organizations for public works projects in designated areas of high unemployment (over 8%). The program, a subsidiary of the Public Works and Development Facilities program (see above) can make grants for up to 80% of the cost of acquiring and developing land and acquiring, constructing or renovating facilities.	Department of Commerce	Assistant Secretary for Economic Development Economic Development Admin. Department of Commerce Washington, D.C. 20236 202-377-5113	– – –	10-35% of the above

RECREATION

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
LAND AND WATER CONSERVATION FUND Funding for (1) acquisition and development of lands for federally administered parks, wildlife refuges and recreation areas; and (2) provides matching grants for States recreation planning, and States as well as local land acquisition and development.	Heritage Conservation & Recreation Service (Dept. of Interior)	Regional Office or Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-7801	2,500 grants	$300 million
URBAN PARK AND RECREATION RECOVERY PROGRAM A newly enacted program that complements the Land and Water Conservation Fund. It rehabilitates existing indoor and outdoor recreation facilities in distressed urban areas. Application will be accepted in Fall of 1979.	Heritage Conservation & Recreation Service (Dept. of Interior)	Regional Office or Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-5444	— — —	$150 million (authorized)
SURPLUS FEDERAL REAL PROPERTY FOR PARKS AND RECREATION PROGRAM Transfers to eligible applicants lands surplus to the needs of the Federal Government to be used for public parks and recreation purposes.	Heritage Conservation & Recreation Service (Dept. of Interior)	Technical Preservations Services Division Heritage Conservation & Recreation Service Pension Building 440 G St., NW Washington, D.C. 20243 202-343-7201	60	Staff Service

SOCIAL SERVICES

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
COMMUNITY ACTION PROGRAM Seeks solutions to the social and economic problems related to proverty through the operation of community action agencies throughout the nation which runs diverse programs, from comprehensive neighborhood service centers to Head Start to job training to feeding and health care projects.	Community Services Administration	Director, Office of Community Action Community Services Admin. 1200 19th St., NW Washington, D.C. 20506 202-254-6110	870 community action agencies	$369 million

SOCIAL SERVICES

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
SENIOR OPPORTUNITIES AND SERVICES Serves the elderly poor with programs including housing, food and medical care, legal advice, fuel and home weatherization, and transportation.	Community Services Administration	Chief, Older Persons Program Community Services Admin. 1200 19th St., NW Washington, D.C. 20506 202-632-5196	— — —	$10.5 million
COMMUNITY ANTI-CRIME PROGRAM Provides funds and technical assistance for neighborhood anti-crime acitivies, such as blockwatches, tenant security programs, escort services for the elderly, child protective services, residential security education projects, volunteer-based recreational programs, and juvenile counseling services.	Law Enforcement Assistance Adminis. (Dept. of Justice)	Office of Community Anti-Crime Program Law Enforcement Assistance Admin. 633 Indiana Ave., NW Washington, D.C. 20531	151	$7 million (only funding existing projects)
NATURAL HELPING NETWORKS AND SERVICE DELIVERY A research project designed to appraise and compare 30 programs in which natural helping networks relate to agency services. Natural helping networks are spontaneously developed networks of relationships which tie people together and can be used to exchange information and services (i.e. a loose network of mothers who give day care, know each other and exchange information).	Department of HEW	Ms. Diane Pancoast Portland State University Regional Research Institute P.O. Box 751 Portland, OR 97207 503-229-4040	1	$125,000 (only funding existing project)
COMMUNITY RELATIONS SERVICE Provides technical assistance to help communities and groups cope with disputes and difficulties arising from racial discrimination and social inequities. Aimed at peaceful progress towards justice and equal opportunity for all citizens.	Department of Justice	Community Relations Service Department of Justice Washington, D.C. 20530 202-739-4011		Staff Services

SOCIAL SERVICES

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
HEAD START Helps to provide educational, nutritional and social services to pre-school children of the poor and their families and to involve parents in activities with their children so that the child enters school on more equal terms with their less deprived classmates. Grants are awarded to public or private nonprofit agencies.	Department of HEW	Office of Child Development/Head Start Office of Human Development Department of HEW P.O. Box 1182 Washington, D.C. 20013 202-755-7790		
SCIENCE FOR CITIZENS: FORUMS, CONFERENCES AND WORKSHOPS	National Science Foundation			
SCIENCE FOR CITIZENS: PUBLIC SERVICE SCIENCE RESIDENCIES	National Science Foundation			

TRANSPORTATION

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
OHDS TRANSPORTATION DEMONSTRATION PROGRAM A two year program to demonstrate that the quality and quantity of local transportation facilities to meet human service needs can be enhanced through coordination and consolidation.	Office of Human Development (Dept. of HEW)	Director, Office of Planning, Research & Evaluation HEW N. Building, Room 3741 330 Independence Ave., SW Washington, D.C. 20201 202-472-6755	6 grants 2 contracts	$188,000

VOLUNTEER

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
VOLUNTEERS IN SERVICE TO AMERICA (VISTA) Provides full time volunteers to organizations addressing specific problems of proverty and proverty-related human, social, and environmental needs of the community.	ACTION	VISTA ACTION 806 Connecticut Ave., NW Washington, D.C. 20525	500	$38.5 million

VOLUNTEER

Program Description	Agency	Contact	No. of Projects (Grants)	1979 Budget Appropriations
FOSTER GRANDPARENT PROGRAM Provides opportunities for low income persons age sixty and over to serve children with special needs on a person to person basis, in hospitals, correctional facilities, institutions for the mentally retarded, and homes for the physically and emotionally handicapped, and in day care centers, schools and in the children's own homes.	ACTION	Director, Older Americans Volunteer Program ACTION 806 Connecticut Ave., NW Washington, D.C. 20525 202-254-7310 (local D.C. area) 800-424-8580 (toll free number for outside D.C. area)	199	$35 million
RETIRED SENIOR VOLUNTEER PROGRAM Provides opportunities for senior volunteers age sixty and over, to serve on a regular basis in public or private nonprofit organizations such as schools, libraries, courts, museums, hospitals, nursing homes, and day care centers.	ACTION	Director, Older Americans Volunteer Program ACTION 806 Connecticut Ave., NW Washington, D.C. 20525 202-254-7310 (local D.C. area) 800-424-8580 (toll free number for outside D.C. area)	682	$20 million
CONSUMER AND REGULATORY FUNCTIONS Provides opportunity for consumers to participate in HUD's decision-making processes, establishing two way communication through the Consumer Network. Regulatory functions protect consumers in interstate land sales, mobile home purchases, and real estate practices.	Department of HUD	Consumer Liaison Div. Room 4212 HUD Washington, D.C. 20410 202-755-7940	— — —	Staff Service

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